

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER

Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK

Assistant Auditor/Controller-Recorder
Assistant County Clerk

April 2, 2003

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section for the quarter ending March 31, 2003.

Respectfully submitted,

Larry Walker

AUDITOR/CONTROLLER-RECORDER

By:

Howard M. Ochi
Chief Deputy Auditor

LDW:HO:spr

Attachments (5)



AUDIT REPORTS
PREPARED BY INTERNAL AUDITS SECTION
FOR THE QUARTER ENDING
MARCH 31, 2003

Office of
AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

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Risk Assessment -Previously forwarded to your office, attached to letter from Larry Walker, dated January 8, 2003

Special District Department - Previously forwarded to your office attached to memo from Larry Walker, dated February 21, 2003

December 12, 2002

Richard Larsen

Treasurer/Tax Collector

172 W. Third St, First Floor

San Bernardino, CA 92415-0360

SUBJECT: TREASURER'S CASH & INVESTMENT AUDIT – September 4, 2002

Introductory Remarks

In accordance with California Government Code Sections 26920 through 26923 and County Board of Supervisor's resolution dated July 6, 1971, we have completed a cash count and reconciliation of the Treasurer's Cash Book as of September 4, 2002. In addition, we evaluated investments for compliance with California Government Code Section 53601, "Securities Authorized for Investment" and with the Treasurer's Investment Policy.

Scope of Audit

We audited selected financial transactions, operations, procedures, and controls in effect over cash and investments. Our audit was made in accordance with generally accepted auditing standards and included such tests of the records and other auditing procedures as we considered necessary in the circumstances. The scope of our audit did not include confirmations of bank accounts and investments.

Audit Results

Cash and investments of \$2,086,724,097 as stated in the Treasurer's cashbook at September 4, 2002 reconciled to cash on hand and supporting documentation in all material respects.

Treasurer Cash & Investment Audit
Richard Larsen
December 12, 2002
Page -2-

There were no instances of non-compliance noted in the evaluation of compliance with California Government Code Section 53601 and the Treasurer's Investment Policy. Our study and evaluation, made for the limited purpose described above, would not necessarily disclose material weaknesses in internal controls. Nothing came to our attention that indicated procedures and controls are not materially adequate.

Respectfully submitted,

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)
Oversight Committee (4)

By: _____
Linda C. Kjeldgaard, CPA
Internal Auditor II
Internal Audits Section

Audit File (3)

Dated Report Distributed: _____

LDS:LCK:mab

January 10, 2003

Raymond Wingerd, Chief Probation Officer
175 West Fifth Street
San Bernardino, CA 92415

**SUBJECT: AUDIT OF PROBATION DEPARTMENT TRUST FUND ACCOUNTS
AND CASH FUNDS**

Introductory Remarks

In accordance with the requirements of Section 275 of the Welfare and Institutions Code, we have performed an audit of the trust fund accounts and cash funds for the San Bernardino County Probation Department. Our audit covered the period from July 1, 2000 to June 30, 2002. The Probation Department maintains the following trust funds in bank accounts and in the County Treasury:

<u>Bank Accounts</u>	<u>County Treasury</u>
Kuiper Youth Center Trust Fund	Asset Litigation Trust Fund
Regional Youth Educational Facility Trust Fund	Special Trust Fund
Youth Accountability Boards Trust Fund	Title IVE/IVA Trust Fund
Juvenile Hall Trust Fund	Asset Forfeiture Trust Fund
Project Focus-West Trust Fund	Asset Forfeiture Trust Fund - 15%
Sustaining Trust Fund	
Youth Justice Center Trust Fund	

In addition, the Probation Department maintains a petty cash fund, partly held in a checking account and partly as cash on hand. The checking account is named Fiscal Services Petty Cash.

Scope of the Audit

We audited the books and accounts kept by the Probation Department for the purposes described in the above code section. Our audit was made in accordance with the standards of the Institute of Internal Auditors, and included examination of selective financial transactions, operating procedures, and controls in effect over the above mentioned cash accounts and trust funds, and such other auditing procedures we considered necessary in the circumstances.

We identified organizational, procedural, and accounting changes that could, when implemented, strengthen the internal controls over the department's trust fund accounts and cash funds. The results of our audit are presented in the Findings and Recommendations section of this report. The audit work performed, however, would not necessarily disclose all material weaknesses in internal controls.

A draft report was sent to the Probation Department on January 16, 2003 and was discussed at the Exit Conference on January 10, 2003. The Probation Department's responses to our recommendations are included in this report.

ACTIONS TAKEN ON PRIOR FINDINGS AND RECOMMENDATIONS

The Probation Department Audit Report dated January 19, 2001 contained one finding which has not been adopted. Further recommended action for finding one is shown below.

Prior Finding One: Cash in trust fund bank accounts does not earn interest.

Prior Recommendation:

- Conduct an analysis of each trust fund's historical income and expenditure patterns and make estimates of future program needs and expenditures.
- Develop a cash management and investment policy for all trusts that will maximize the earnings on the funds.
- Coordinate with the Treasurer – Tax Collector's office to ensure complete compliance with the County's banking and investment policies.

Current Status:

The Probation Department has not conducted an analysis of each trust fund and developed a cash management and investment policy for all trusts that will maximize the earnings on the funds.

Further Recommended Action:

Comply with prior recommendations.

Auditee's Response:

We concur with the finding and the recommendation. We will begin development of a cash management and investment policy within three months. We anticipate a reduction in staffing which will require a distribution of the workload of the existing Fiscal Clerk III to other positions.

FINDINGS AND RECOMMENDATIONS

Finding One: For the Special Trust Fund (VCY), the Financial Accounting System (FAS) reports were not completely reconciled to reports from Central Collections.

The Internal Controls and Cash Manual issued by the Auditor/Controller – Recorder's Office states that the department should reconcile the FZ403 report (Trust and Agency Detail Listing by General Reporting Category) to supporting account records upon receipt.

Reconciliations for the special trust fund were inadequate because differences in monthly activity were not properly identified and ending account balances were not reconciled. For example, on the March 2002 reconciliation, there was a \$60.39 expenditure that was not identified as an outstanding check with the treasury. Also, in the same reconciliation there was a difference in cash receipts of \$9,614.88 which could not be readily identified by reports from Central Collections. Consequently, a thorough reconciliation was not performed.

Cash receipts and disbursements cannot be properly accounted for if a thorough monthly reconciliation is not completed. A thorough monthly reconciliation would include reconciling the monthly ending account balances between the reports.

Recommendation:

The monthly Financial Accounting System (FAS) report (FZ403 – Trust and Agency Detail Listing by General Reporting Category) should be reconciled monthly to the reports from Central Collections.

Auditee's Response:

- 1) The \$60.39 expenditure that is referred to as an outstanding "check" with the treasury is actually a "request for payout" to CUBS (Central Collections accounting system), executed in this office on February 28th (and entered into the log as such). CUBS posted the \$60.39 in its nightly transmittal to ISD on 02/28/02; the \$60.39 item did not interface with FAS till 03/01/02 (a delay of one day). End of the month cutoffs can be presented as a missing payout, over which neither Probation nor Central Collections has control. As this carry-over is an ongoing occurrence, the Fiscal Clerk III reconciles each activity with backup documentation provided through Central Collections and then verifies the transaction against FAS in the following month. It is recognized that the Fiscal Clerk III should notate this information onto all pertinent documents to facilitate follow-up.
- 2) The difference in cash receipts follows the same timing issue as above. There is a payment source report that is received from CUBS on a monthly basis that details the totals of receipts (cash) and the total of disbursements (non-cash) used to reconcile FAS with CUBS. In this report, CUBS shows the \$9,614.88 receipted on 2/28/02; FAS picked up this amount on 03/01/02 for its month end report. This amount was another carry-over issue of which neither Probation nor Central Collections has control. While there is adequate backup documentation and reports on file to reconcile/rectify any VCY activity that appears in FAS, it is recognized that the Fiscal Clerk III should have notated this information onto all pertinent documents to facilitate follow-up.
- 3) The Fiscal Clerk III receives "batch verification" and detailed warrant transaction reports from Central Collections (the latter is initiated by the Treasurer) for any activity that generates a payout through the VCY account. The Fiscal Clerk III also receives a monthly "stale-dated warrant" listing from the Treasurer's Office, which would alert her to any warrants that were not cashed in the last six months.

Finding Two: A cash receipts log indicating receipt numbers, receipt dates, and to whom the receipts were issued was not maintained.

The Internal Controls and Cash Manual issued by the Auditor/Controller – Recorder's Office states that "Departments are to maintain a log or record of receipts issued, manual or automated, for all receipting systems. Departments using the Official County Receipt are to keep a receipt control record indicating the receipt numbers received, date issued or used and to whom issued."

The Department could not provide proof to substantiate that all official County receipts used are accounted for. The Administrative Supervisor I stated that the Fiscal Clerk III visually reviews manual cash receipts for possible missing receipts.

This can result in the occurrence of undetected irregularities.

Recommendation:

A log indicating the receipt numbers, receipt dates, and to whom they are issued must be maintained by the Fiscal Clerk III and reviewed by the Administrative Supervisor I.

Auditee's Response:

Fiscal services will set up an individual numbering system for each receipt as requested by this auditor. This will augment our existing tracking system.

Acknowledgements

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)
Audit File (3)

By: _____
Larry G. Soria
Senior Internal Auditor II
Internal Audits Section

Date Report Distributed: _____

LDW:LGS:dlp3

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY FLOOD CONTROL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
November 5, 2002**

**County of San Bernardino Special Districts
County Flood Control District
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Independent Auditor's Report

November 5, 2002

Ken A. Miller, Director

Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY FLOOD CONTROL
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Flood Control District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the Special District basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report

AudRpt/Ken A. Miller
SBCO Flood Control
November 5, 2002
Page -2-

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Flood Control District, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 31 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Flood Control District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)

LDW:BKR:SMS:spr.1

Date Report Distributed: _____

**County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2002**

	Governmental Activities	Business-Type Activities	
ASSETS	Flood Control	Equipment Rental	Total
Current assets:			
Cash and cash equivalents	\$ 60,324,984	\$ 1,949,699	\$ 62,274,683
Restricted cash	119,863	-	119,863
Customer deposits	60,000	-	60,000
Accounts receivable	237,754	-	237,754
Taxes receivable	1,070,668	-	1,070,668
Interest receivable	613,442	18,709	632,151
Advances to other funds	2,673	18,901	21,574
Due from other governments	806,683	34,197	840,880
Total current assets	<u>63,236,067</u>	<u>2,021,506</u>	<u>65,257,573</u>
Noncurrent assets:			
Capital assets:			
Structures	425,843		425,843
Construction in progress	10,774,377		10,774,377
Dams, channels, drainage systems	299,283,326		299,283,326
Equipment and vehicles	363,976	8,970,110	9,334,086
Less accumulated depreciation	<u>(148,705,696)</u>	<u>(4,128,303)</u>	<u>(152,833,999)</u>
Total noncurrent assets	<u>162,141,826</u>	<u>4,841,807</u>	<u>166,983,633</u>
Total assets	<u>\$ 225,377,893</u>	<u>\$ 6,863,313</u>	<u>\$ 232,241,206</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 335,062	\$ -	\$ 335,062
Retention payable	53,224	-	53,224
Salaries and benefits payable	404,449	1,025	405,474
Capital leases current	12,201	25,922	38,123
Advances from other funds	21,574		21,574
Due to other governments	1,454,130	651	1,454,781
Deferred revenue	6,934	-	6,934
Employee compensated absences	933,991	-	933,991
Loans payable - current portion	255,000		255,000
Customer deposits	66,420	-	66,420
Total current liabilities	<u>3,542,985</u>	<u>27,598</u>	<u>3,570,583</u>
Noncurrent liabilities:			
Capital leases	-	99,660	99,660
Loans payable	16,518,467	-	16,518,467
Total noncurrent liabilities	<u>16,518,467</u>	<u>99,660</u>	<u>16,618,127</u>
Total liabilities	<u>20,061,452</u>	<u>127,258</u>	<u>20,188,710</u>
NET ASSETS			
Invested in capital assets, net of related debt	145,356,158	4,716,225	150,072,383
Unrestricted	59,960,283	2,019,830	61,980,113
Total net assets	<u>205,316,441</u>	<u>6,736,055</u>	<u>212,052,496</u>
Total liabilities and net assets	<u>\$ 225,377,893</u>	<u>\$ 6,863,313</u>	<u>\$ 232,241,206</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Activities
For the Year Ended June 30, 2002**

	Governmental Activities <u>Flood Control</u>	Business-Type Activities <u>Equipment Rental</u>	<u>Total</u>
EXPENSES:			
Salaries and benefits	\$ 5,983,286	\$ 27,934	\$ 6,011,220
Services and supplies	5,369,238	1,027,908	6,397,146
Professional services	-	11,186	11,186
Rents and leases	-	10,800	10,800
Depreciation	5,784,080	735,857	6,519,937
Other charges	1,247,783		1,247,783
Interest	568,113	7,294	575,407
Total expenses	<u>18,952,500</u>	<u>1,820,979</u>	<u>20,773,479</u>
PROGRAM REVENUES			
Government aid and grants	7,602,743	-	7,602,743
Charges for services	-	1,847,305	1,847,305
Total program revenues	<u>7,602,743</u>	<u>1,847,305</u>	<u>9,450,048</u>
Net program (expense) revenue	<u>(11,349,757)</u>	<u>26,326</u>	<u>(11,323,431)</u>
GENERAL REVENUES:			
Property taxes	20,174,114	-	20,174,114
Interest	3,148,090	90,560	3,238,650
Rents, concessions and royalties	1,002,120	-	1,002,120
Gain on sale of fixed assets	859,189	81,859	941,048
Miscellaneous	1,204,303	-	1,204,303
Total general revenues	<u>26,387,816</u>	<u>172,419</u>	<u>26,560,235</u>
Change in net assets	15,038,059	198,745	15,236,804
Net assets beginning (restated)	190,278,382	6,537,310	196,815,692
Net assets ending	<u>\$ 205,316,441</u>	<u>\$ 6,736,055</u>	<u>\$ 212,052,496</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Flood Control
Balance Sheet-Governmental Funds
June 30, 2002**

	Governmental Activities <u>Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 60,324,984
Restricted cash	119,863
Customer deposits	60,000
Interest receivable	613,442
Taxes receivable	1,070,667
Accounts receivable	237,754
Advances to other funds	2,673
Due from other governments	806,683
Total assets	<u>\$ 63,236,066</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 404,449
Retention payable	53,223
Accounts payable	335,062
Advances to other funds	21,574
Due to other governments	1,454,130
Deferred revenue	6,934
Customer deposits	66,420
Total liabilities	<u>2,341,792</u>
Fund Balances:	
Unreserved	55,384,328
Reserved for Encumbrances	5,509,946
Total fund balances	<u>60,894,274</u>
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	162,141,826
Long term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet	(17,719,659)
Net assets of governmental activities	<u>\$ 205,316,441</u>

The notes to the financial statements are an integral part of this statement.

	Total
REVENUES	Governmental Funds
Property Taxes	\$ 19,708,415
Other Taxes	465,699
Interest	3,148,090
Governmental Aid	7,602,743
Rents, Concessions and Royalties	1,002,120
Other	1,204,303
Total Revenues	<u>33,131,370</u>
EXPENDITURES	
Salaries and Benefits	5,983,286
Services and Supplies	5,369,238
Debt Service - Principal	1,116,315
Debt Service - Interest	568,113
Other Charges	1,247,783
Capital Outlay	<u>11,831,231</u>
Total Expenditures	<u>26,115,966</u>
Excess (Deficiency) of Revenues Over Expenditures	7,015,404
OTHER FINANCING SOURCES:	
Sales of Fixed Assets	<u>859,189</u>
Total Other Financing Sources	<u>859,189</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	7,874,593
Fund Balance (Restated) July 1, 2001	53,019,681
Fund Balance, June 30, 2002	<u>\$ 60,894,274</u>

**County of San Bernardino
County Flood Control District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
June 30, 2002**

Net change in fund balances-total governmental funds	\$	7,874,593
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		6,047,151
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Repayment of capital leases and other long term debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.		1,116,315
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Change in net assets of governmental activities	\$	15,038,059
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Flood Control
Statement of Net Assets
Proprietary Fund
June 30, 2002**

	Internal Service Fund <u>Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,949,699
Interest receivable	18,709
Advances to other funds	18,901
Due from other governments	34,197
Total current assets	<u>2,021,506</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	8,970,110
Less accumulated depreciation	<u>(4,128,303)</u>
Total noncurrent assets	<u>4,841,807</u>
Total assets	<u><u>\$ 6,863,313</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 1,025
Capital leases current	25,922
Due to other governments	651
Total current liabilities	<u>27,598</u>
Noncurrent liabilities:	
Capital leases	<u>99,660</u>
Total noncurrent liabilities	<u>99,660</u>
Total liabilities	<u>127,258</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,716,225
Unrestricted	<u>2,019,830</u>
Total net assets	<u>6,736,055</u>
Total liabilities and net assets	<u><u>\$ 6,863,313</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2002**

	Business Type Activities
	Internal Service
	Equipment Rental
OPERATING REVENUES	
Charges for services	\$ 1,847,305
Total operating revenues	1,847,305
OPERATING EXPENSES	
Salaries and benefits	27,934
Professional services	11,186
Services and supplies	1,027,908
Rents and leases	10,800
Depreciation	735,857
Total operating expenses	1,813,685
Operating income (loss)	33,620
NONOPERATING REVENUES (EXPENSES)	
Interest	90,560
Gain on sale of fixed assets	81,859
Interest expense	(7,294)
Total nonoperating revenues (expenses)	165,125
Change in net assets	198,745
Net assets-beginning	6,537,310
Net assets-ending	\$ 6,736,055

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Flood Control District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2002**

	Equipment Rental
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from assessments made to other funds	\$ 1,847,305
Payments to employees for services	(27,710)
Payments to suppliers for goods and services	(1,052,354)
Other payments	-
Net cash provided (used) by operating activities	<u>767,241</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
None	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(1,178,823)
Cash sales of capital assets	49,866
Principal paid on capital leases	(17,423)
Interest paid on capital leases	(7,294)
Net cash provided (used) by noncapital financing activities	<u>(1,153,674)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair value of investments	5,377
Interest	98,594
Net increase (decrease) in cash and cash equivalents	(282,462)
Cash and cash equivalents - beginning	<u>2,232,161</u>
Cash and cash equivalents - ending	<u><u>\$ 1,949,699</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 33,620
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	735,857
Change in assets and liabilities:	
Decrease in receivables, net	23,609
Decrease in accounts and other payables, net	(25,845)
Net cash provided (used) by operating activities	<u><u>\$ 767,241</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Borrowing under capital leases-purchase of vehicles	<u><u>\$ 150,299</u></u>

**County of San Bernardino
Flood Control District
Statement of Fiduciary Net Assets
June 30, 2002**

1915 Act
Bond
Reserve
Agency Funds

ASSETS

Cash and cash equivalents	\$	646,006
Total current assets	\$	<u>646,006</u>

LIABILITIES

Due to bondholders	\$	646,006
Total liabilities	\$	<u>646,006</u>

The notes to the financial statements are an integral part of this statement.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District is a special district located within the County of San Bernardino. The County Flood Control District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

San Bernardino County Flood Control District was established under Chapter 73 of the 1939 Statutes for the State of California. County Flood Control's powers are exercised through a Board of Supervisors (the "Board"), which is a governing body for the County. Flood Control maintains and constructs flood control channels, basins, storm drains and dams in the six geographical zones within San Bernardino County. Flood Control also works with the neighboring counties of Los Angeles, Riverside and Orange County to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, the administration, and the internal service fund (equipment rental) and their related group of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the County Flood Control District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).
2	The central areas of the San Bernardino Valley easterly of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the Cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The easterly end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake and including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twentynine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES) which are reported with the Zones.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to nine months.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenues funds* Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

The *internal service fund* labeled “Equipment Rental” accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain flood control improvements. The liability at June 30, 2002 is \$ 180,000.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” All accounts receivable are shown net of an allowance from uncollectibles when applicable.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$ 100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Basins, storm drains, channels, dams	50 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Equipment and vehicles	
Internal Service fund (Enterprise)	productive hours

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2002 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 1,187,416	\$ 569,103	\$ 822,528	\$ 933,991

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities that cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

The details of the differences of \$ 7,163,466 are as follows:

Capital outlay	\$ 11,831,231
Depreciation expense	(5,784,080)
Repayment of long term debt	<u>1,116,315</u>
Net adjustment to increase <i>net change in fund balances total governmental funds</i> to arrive at <i>changes in net assets</i> of governmental activities	<u><u>\$ 7,163,466</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District’s Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*; Statement No. 37, *Basic Financial Statements- and Management’s Discussion and Analysis – For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District’s basic financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District’s account based upon the District’s average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of deposits made to the District on various construction projects that are not expendable and are therefore restricted.

NOTE 4 – ADVANCES TO OTHER FUNDS/ADVANCES FROM OTHER FUNDS

Advances to other funds represent monies advanced to zones 1 through 6 by other zones and from the Internal Service Fund. The advances outstanding at June 30, 2002 will be paid back in fiscal year 2002-2003. The advances to/from is shown below by fund:

<i>Advances to</i>		<i>Advances From</i>	
RLF (NPDES)	\$ 21,574	RFA (Zone 1 General)	\$ 2,673
		ICA(Equipment Fund)	18,901
<i>Total To/From</i>	<u>\$ 21,574</u>		<u>\$ 21,574</u>

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 5 – CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives.

For the Internal Service Fund(ICA) capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for both governmental and business-type activities are as follows:

	Balance July 1, 2001	Increases	Decreases	Ending Balance June 30, 2002
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 408,655	\$ 11,745,243	\$ 1,379,521	\$ 10,774,377
Total capital assets, not be depreciated	408,655	11,745,243	1,379,521	10,774,377
<i>Capital assets, being depreciated:</i>				
Buildings	425,843			425,843
Channels, drains, dams,basins	297,903,805	1,379,521		299,283,326
Vehicles	83,348		17,130	66,218
Equipment	298,419	7,284	7,945	297,758
Total capital assets being depreciated	298,711,415	1,386,805	(25,075)	300,073,145
Less accumulated depreciation for:				
Buildings	(255,014)	(9,452)		(264,466)
Channels, drains, dams, basins	(142,389,723)	(5,746,521)		(148,136,244)
Vehicles	(83,348)		17,130	(66,218)
Equipment	(218,606)	(28,107)	7,945	(238,768)
Total accumulated depreciation	(142,946,691)	(5,784,080)	25,075	(148,705,696)
Total capital assets being depreciated,net	155,764,724	(4,379,275)	0	151,367,449
Governmental activities capital assets,net	\$ 156,173,379	\$ 7,347,968	\$ (1,329,521)	\$ 162,141,826
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Vehicles	7,873,855	1,136,985	(74,455)	8,936,385
Equipment	55,171	-	(21,446)	33,725
Total capital assets,being depreciated	7,929,026	1,136,985	(95,901)	8,970,110
Less accumulated depreciation for:				
Vehicles	(3,518,082)	(731,616)	150,881	(4,098,817)
Equipment	(46,691)	(4,241)	21,446	(29,486)
Total accumulated depreciation	(3,564,773)	(735,857)	172,327	(4,128,303)
Business type activities capital assets, net	\$ 4,364,253	\$ 401,128	\$ 76,426	\$ 4,841,807

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 5 – CAPITAL ASSETS (Continued)

At June 30, 2002 the District had \$ 10,774,377 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS		Year to Date	Totals By
Zone	Description	Expenses	Zone
1	West State Street Drain	\$ 2,191,189	
1	West CUC Channel	1,218,948	
1	Ely Basin		
	Outlet	35,040	
1	West Fontana Channel	15,294	
1	Drainage		
	Plan	14,583	
1	Riverside Storm Drain	614,911	
1	County Line Channel	6,222	
1	Grove Basin	10,354	
1	Hermosa Storm Drain	1,448,068	
1	San Bernardino Storm Drain	1,057,425	
1	Ely Basin Nose Pier	60	
1	Hickory Basin	1,481,967	
1	San Sevaine Basin	60,419	
1	San Sevaine System	19,924	
1	SPPL Relocation	14,920	
1	Etiwanda Debris Basin	19,699	
1	San Sevaine at Foothill	2,080	
1	Victoria Basin	15,087	
1	Etiwanda San Sevaine Bur of Reclam.	233,969	\$ 8,460,159
2	Cactus Basin	129,176	
2	Rialto Channel Phase 2	16,228	
2	Del Rosa Channel	127	
2	Cactus Basin # 3	40,100	
2	Cactus Basin # 4	23,069	
2	Cacuts Basin # 5	37,537	
2	Rialto Channel	13,492	
2	Linden Avenue Storm Drain	24,835	
2	Sand Creek/Warm Creek	10,263	
2	San Timeteo	180,000	
	Santa Ana		
	River	526,912	
2	San Timeteo Creek Channel	218	1,001,957
3	Sar Mitigation	495	
3	Wooly Star Biology	123,218	
3	Mill Creek Zanja Expansion	80,830	
3	San Timeteo	810,216	
3	Seven Oaks Dam Tres Lagos	4,802	
3	San Timeteo	79,971	1,099,532
4	Oro Grande Wash	481	
4	Mojave River at I-15	32,732	
4	Hesperia Detention	1,577	
4	Desert Knolls	80,825	
4	Mojave Drive Channel	87,754	203,369
5	Rim Forest Drainage	115	
	Houston		
	Creek	9,245	
5	Totals Zones 1-6, LADP, NPDES	\$ 10,774,377	\$ 9,360
			\$ 10,774,377

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 5 – CAPITAL ASSETS (Continued)

The District has active major construction projects as of June 30, 2002. The projects include new construction and renovations of dams, channels, basins and storm drains. At year end the government's commitments with contractors are as follows:

Project	Remaining Commitment	Financing Sources
West State Street Storm Drain	\$ 6,820,287	Government Aid and Property taxes
Deer Creek	18,666	Government Aid and Property taxes
Ely Basin & West Cucamonga Channel	3,542,292	Government Aid and Property taxes
Etiwanda/San Sevaine Channel/Basin	287,606	Government Aid and Property taxes
Hickory Basin	193,463	Government Aid and Property taxes
East Rialto Storm Drain	26,037	Government Aid and Property taxes
Rialto Channel	666,840	Government Aid and Property taxes
5th Street Bridge at City Creek	60,000	Government Aid and Property taxes
San Timeteo Creek	101,401	Government Aid and Property taxes
Desert Knolls Wash	10,770	Government Aid and Property taxes
City of Needles/Drainage	48,673	Government Aid and Property taxes
Total	<u><u>\$ 11,776,035</u></u>	

NOTE 6 – CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment (recorded in the Governmental funds) and six pick-up trucks (recorded in the Equipment Fund). The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2002:

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 6 – CAPITAL LEASES PAYABLE (Continued)

<u>Year End June 30,</u>	Governmental Activities	Internal Service Fund Equipment Rental
2003	\$ 12,539	\$ 28,502
2004		34,202
2005		34,202
2006		34,202
2007		5,700
Total Minimum Payments	12,539	136,808
Less: Amount Representing Interest	(338)	(11,226)
Present Value of Minimum Lease Payments	<u>\$ 12,201</u>	<u>\$ 125,582</u>

The assets acquired through capital leases are as follows:

<u>Asset:</u>	Governmental Activities	Internal Service Fund Equipment Rental
Equipment and Vehicles	\$ 297,758	\$ 150,299
Less: Accumulated Depreciation	(238,768)	(29,220)
Total	<u>\$ 58,990</u>	<u>\$ 121,079</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$ 6,934 at June 30, 2002.

NOTE 8 – LOANS PAYABLE

Loans Payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$ 11,008,468, the City of Loma Linda Redevelopment Agency for \$ 765,000, and the United States Army Corp of Engineers for \$ 5,000,000.

San Bernardino County Flood Control entered into a loan agreement with the Bureau of Reclamation, for the construction of the San Sevaine Creek Water Project. Amounts owed are determined annually until the project is completed (approximately 8 years) based on costs incurred but will not exceed \$ 20 million. After completion, the County has 15 years to pay back the liability along with 7% interest. The project has not been completed as of June 30, 2002 and the final loan balance and repayment schedule has not been determined at this time.

San Bernardino County Flood Control entered into a contract to reimburse the City of Loma Linda Redevelopment Agency for the San Timeteo Creek Project

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 8 – LOANS PAYABLE (Continued)

during fiscal year ending June 30, 2002. The County agreed to pay the City of Loma Linda Redevelopment Agency \$ 1,200,000 (interest free) over the next four years. The District paid a principal loan payment of \$ 435,000 during the fiscal year end June 30, 2002. The current portion of the loans payable on the Redevelopment Agency loan is \$ 255,000.

The Flood Control district entered into a loan agreement with the United States Army Corp of Engineers for the San Timeteo Creek Project during fiscal year ending June 30, 2001. The County has agreed to pay back the loan upon completion of the project and accrued interest. (Interest is to be determined by the Secretary of the Treasury upon completion of the project.) The unpaid loan balance at June 30, 2001 was \$ 3,000,000 and at June 30, 2002 is \$ 5,000,000. The San Timeteo Project has not been completed at June 30, 2002.

The following is a schedule by year of future loan repayments as of June 30, 2002:

Year Ending June 30,	City of Loma Linda Redevelopment Agency	U.S. Army Corp of Engineers	U.S. Department of Interior Bureau of Reclamation	Total
	San Timeteo Creek	San Timeteo Creek	San Sevaine Creek	
2003	\$ 255,000	\$ -	\$ -	\$ 255,000
2004	255,000			255,000
2005	255,000			255,000
2006				
2007				
2008		5,000,000	11,008,467	16,008,467
	<u>\$ 765,000</u>	<u>\$ 5,000,000</u>	<u>\$ 11,008,467</u>	<u>\$ 16,773,467</u>

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 9- LONG TERM OBLIGATIONS

A schedule of changes in Long Term obligations of the District during 2002, follows:

	Restated Principal Outstanding			Principal Outstanding		Amounts Due in
	June 30, 2001	Additions	Deletions	June 30, 2002		One Year
Governmental Activities						
<i>Capital Leases-5.20%</i>	\$ 99,058	\$ -	\$ 86,857	\$ 12,201	\$	12,201
<i>Compensated Absences</i>	1,187,416	569,103	822,528	933,991		253,425
<i>Loan-Bureau of Reclamation</i>	10,538,600	469,867	-	11,008,467		-
<i>Loan City of Loma Linda-Redevelopment</i>	1,200,000		435,000	765,000		255,000
<i>U.S. Army Corp of Engineers</i>	3,000,000	2,000,000		5,000,000		-
<i>Total Governmental</i>	<u>\$ 16,025,074</u>	<u>\$ 3,038,970</u>	<u>\$ 1,344,385</u>	<u>\$ 17,719,659</u>	<u>\$</u>	<u>520,626</u>
Business Type Activities						
<i>Capital Leases-5.20%</i>	\$ -	\$ 150,299	\$ 24,717	\$ 125,582	\$	25,922
<i>Total Business Type</i>	<u>\$ -</u>	<u>\$ 150,299</u>	<u>\$ 24,717</u>	<u>\$ 125,582</u>	<u>\$</u>	<u>25,922</u>

NOTE 10 – CUSTOMER DEPOSITS

Customer Deposits represent amounts held by County Flood Control District on behalf of customers of the district that are required to make deposits for various projects that require rights of way and easements on County Flood Control and access to water for construction purposes.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 11 – PRIOR PERIOD ADJUSTMENT TO FUND BALANCE/NOTES PAYABLE

On July 1, 2001 fund balance was understated by \$ 867,820. There has been a restatement of fund balance with a prior period adjustment recorded to recognize property tax revenues under accrued at June 30, 2001. There was \$ 4,200,000 in adjustments made to long term notes payable for the prior year end June 30, 2001. The restatement of fund balance is as follows:

Fund Balance previously reported at June 30, 2001	\$ 52,151,861
Prior Period Adjustment to record underaccrued property tax revenue	867,820
Fund Balance Restated, June 30, 2001	<u>\$ 53,019,681</u>

NOTE 12 – BEGINNING FUND BALANCE/NET ASSETS

Fund Balance as previously reported on July 1, 2001	\$ 52,151,861
Prior Period Adjustments	867,820
Net Capital Assets at June 30, 2001	156,153,379
Less: Notes payable and capital leases payable	<u>(13,637,757)</u>
	<u>142,515,622</u>
Incremental increase in long term notes payable recorded as debt at June 30, 2001. (Debt service payments are deferred until future years).	<u>(5,257,021)</u>
Net Assets at June 30, 2001	<u>\$ 190,278,282</u>

NOTE 13 – NET ASSETS ENDING JUNE 30, 2002

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Governmental Activities	Internal Service Fund Activities
Invested in Capital Assets, Net of Related Debt:		
Net Structures, Construction in Progress, Dams, Channels, Drainage Systems, Equipment and Vehicles	\$ 162,141,826	\$ 4,841,807
Less: Loans payable on Infrastructure and capital leases on vehicles,equipment	<u>(16,785,668)</u>	<u>(125,582)</u>
	145,356,158	4,716,225
Unrestricted	<u>59,960,283</u>	<u>2,019,830</u>
Total Net Assets	<u>\$ 205,316,441</u>	<u>\$ 6,736,055</u>

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 14 – CONTINGENT LIABILITY – DAY CREEK PROJECT

In October 1986, the District entered into a loan agreement with the Federal Government for construction of the Day Creek Project for \$ 13.4 million. A subsequent agreement between the County (on behalf of the District) and the City of Rancho Cucamonga Redevelopment Agency provides the terms and conditions for repayment of the loan. Payments are reflected in Zone 1 as other revenue (from the City of Rancho Cucamonga) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2002, is \$ 5,997,362. The District is contingently liable for the loan if the Agency defaults.

NOTE 15 – LITIGATION AND OTHER CLAIMS

The District is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. No accrual for these loss contingencies has been made on the financial statements because the District participates in the County's self-insurance program, which is administered by the Risk Management division of the County's Human Resources Department. Any resulting losses will be charged to the Risk Management Division.

NOTE 16 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District
South Coast Air Quality Management District

The District and others covered under the plan are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 16 – RETIREMENT PLAN (Continued)

after 5 years. SBCERA issues a stand alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 32639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age and classification (general and safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% -14.46% of the current year covered payroll. During the year, the District paid \$ 729,126 to the plan as the Employer's share. Employee contribution rates were established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 17 – PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 18 – SELF INSURANCE

The District participates in a Public Entity Risk Pool Sponsored by the County of San Bernardino (County). The only insurance costs the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$ 637,942 for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$ 250,000 per occurrence. Excess insurance coverage up to \$ 30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC). Excess Insurance Authority "EIA" Liability Program II. Workers' compensation claims are self insured up to \$ 1 million per occurrence and covered by an independent carrier for the balance up to \$ 2 million for employer's liability and for worker's compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$ 25,000 and insured by the CSAC EIA Property Programs I and II.

**COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING
6/30/02**

NOTE 18 – INSURANCE (Continued)

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for reserves and payment of claims. The County's investment in the agreements totaled \$ 42,590,000 at June 30, 2002.

The total County claims liability of \$92,288,000 reported at June 30, 2002, is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

The County Flood Control District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

Required Supplementary Information
County of San Bernardino Flood Control District
Budgetary Comparison Schedule-Special Revenue Funds
For the Year Ended June 30, 2002

SCHEDULE ONE

Flood Control	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive(negative)
	Original	Final		
Budgetary fund balance July 1, 2001	\$ 44,566,191	\$ 52,151,862	\$ 53,019,681	\$ 867,819
Resources (inflows):				
Property Taxes	18,306,000	18,753,300	20,174,114	1,420,814
Use of Money and Property	2,768,700	2,716,700	3,148,090	431,390
Other Governmental Aid	44,422,244	44,216,444	7,602,743	(36,613,701)
Charges for Services	341,400	449,500	1,002,120	552,620
Other Revenue	1,455,363	3,214,377	2,063,492	(1,150,885)
Amounts available for appropriation	111,859,898	121,502,183	87,010,240	(34,491,943)
Charges to appropriations (outflows)				
Salaries and Benefits	8,781,687	9,724,187	5,983,286	3,740,901
Services and Supplies	98,881,114	98,015,579	5,369,238	92,646,341
Debt Service Principal		1,936,588	1,116,315	820,273
Debt Service Interest		252,200	568,113	(315,913)
Other Charges	5,862,288	4,764,123	1,247,783	3,516,340
Capital Outlay	141,000	62,000	11,831,231	(11,769,231)
Reimbursements	(1,806,191)	0	0	0
Total charges to Appropriations	111,859,898	114,754,677	26,115,966	88,638,711
Budgetary Fund Balance, June 30, 2002	\$ -	\$ 6,747,506	\$ 60,894,274	\$ 54,146,768

COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
COMBINING BALANCE SHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SCHEDULE 2

SPECIAL REVENUE FUNDS

	Total	ADMIN	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	Mission Zanja	Etiwanda Drainage	Biedsoe Creek	NPDES
ASSETS												
Cash in Treasury	\$ 60,324,984	\$ 86,839	\$ 31,127,125	\$ 5,730,557	\$ 3,750,431	\$ 13,662,145	\$ 1,186,569	\$ 844,901	\$ 175,740	\$ 3,136,123	\$ 70,979	\$ 553,575
Restricted Cash-Trust	119,863		119,863									
Customer Deposits	60,000		60,000									
Other Cash and Cash Equivalents												
Subtotal Cash and Investments	60,504,847	86,839	31,306,988	5,730,557	3,750,431	13,662,145	1,186,569	844,901	175,740	3,136,123	70,979	553,575
Accounts Receivable	237,754		204,741	33,013								
Interest Receivable	613,442	3,780	319,119	60,500	39,077	132,400	11,480	7,890				
Property Taxes Receivable	1,070,667	63,590	485,799	200,846	109,376	152,601	13,191	45,264	1,707	31,082	690	5,717
Advances To Other Funds	2,674		2,674									
Due From Other Funds	126,916		36,306	24,162	11,789	9,472		9,716				35,471
Due From Other Governments	806,683	37,334	718,986		7,988							42,375
TOTAL ASSETS	\$ 63,362,983	\$ 191,543	\$ 33,074,613	\$ 6,049,078	\$ 3,918,661	\$ 13,956,618	\$ 1,211,240	\$ 907,771	\$ 177,447	\$ 3,167,205	\$ 71,669	\$ 637,138
LIABILITIES AND FUND BALANCE												
Liabilities:												
Accounts Payable	\$ 335,062	\$	\$ 273,096	\$	\$	\$ 5,036	\$	\$	\$	\$	\$	\$ 56,930
Retention Payable	53,224		27,203	26,021								
Salaries and Benefits Payable	404,449	26,410	149,756	82,606	57,021	36,769	3,344	48,543				
Due to Other Funds	126,916	91,445	19,097	10,171	6,203							
Due to Other Governments	1,454,130	12,467	182,150	37,959	1,167,177	26,259	34	27,543				541
Advances From Other Funds	21,574											21,574
Deferred Revenue	6,934		6,934									
Interest Payable												
Loans Payable												
Customer Deposits	66,420		66,420									
Total Liabilities	2,466,709	130,322	724,656	156,757	1,230,401	68,064	3,378	76,086	0	0	0	79,045
Fund Balance:												
Reserved for Encumbrances	5,509,946	96,820	4,967,015	94,165	122,391	147,227	-	62,486				19,842
Unreserved	55,384,328	(35,599)	27,382,942	5,798,156	2,565,869	13,741,327	1,207,862	769,199	177,447	3,167,205	71,669	538,251
Total Fund Balance	60,894,274	61,221	32,349,957	5,892,321	2,688,260	13,888,554	1,207,862	831,685	177,447	3,167,205	71,669	558,093
TOTAL LIABILITIES AND FUND BALANCE	\$ 63,362,983	\$ 191,543	\$ 33,074,613	\$ 6,049,078	\$ 3,918,661	\$ 13,956,618	\$ 1,211,240	\$ 907,771	\$ 177,447	\$ 3,167,205	\$ 71,669	\$ 637,138

COUNTY OF SAN BERNARDINO
FLOOD CONTROL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

SCHEDULE 3

SPECIAL REVENUE FUNDS

REVENUES	TOTAL	ADMIN	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	Mission Zanja	Etiwanda Drainage	Bledsoe Creek	NPDES
Property Taxes	\$ 19,708,415	\$ 1,168,961	\$ 8,842,497	\$ 3,797,434	\$ 1,974,882	\$ 2,815,868	\$ 231,102	\$ 877,671				\$
Other Taxes	466,699	25,787	202,811	83,308	82,943	50,435	4,462	15,953				
Governmental Aid	7,602,743		4,569,233	(47,109)	2,287,795	67,815		7,259				777,750
Licenses, Permits, and Franchises	47,721		22,670	12,676	8,675	2,979	721					
Rents and Concessions	412,388		225,288	156,154	14,954	14,858		1,134				
Royalties	542,011		329,545	205,216	6,359	891						
Interest	3,148,090	11,339	1,833,213	263,227	204,838	578,206	50,705	30,043	7,733	133,440	3,123	32,223
Other	1,204,303	15,540	1,023,004	(14,326)	28,815	(44,201)	1,497			158,503		35,471
Total Revenues	33,131,370	1,221,627	17,048,261	4,456,580	4,609,261	3,486,851	287,766	932,781	7,733	291,943		785,444
EXPENDITURES												
Salaries and Benefits	5,941,007	1,131,450	2,445,382	679,097	516,303	672,032	48,068	374,544		249		73,882
Services and Supplies	5,503,344	423,616	1,894,688	1,326,133	645,784	590,672	17,583	254,875				349,993
Debt Service:												
Principal	1,116,315		681,315	180,000	255,000							
Interest	568,113		18,193		549,920	22,755	49,272	22,940				
Other Charges	891,837	139,551	9,228,626	998,645	657,319	197,063	9,360					
Capital Outlay	11,827,572	85,987	44,291	20,281	1,307,891	15,463	1,316	5,033				
Inter-Fund transfers in (out) net	267,779	170,860			10,535							
Total Expenditures	26,115,967	1,951,464	14,312,495	3,204,156	3,942,752	1,497,985	125,599	657,392	0	249	0	423,875
Excess (Deficiency) of Revenues Over Expenditures	7,015,403	(729,837)	2,735,766	1,252,424	666,509	1,988,866	162,167	275,389	7,733	291,694	3,123	361,569
OTHER FINANCING SOURCES (USES)												
Operating Transfers In	1,622,056	752,677			869,379	(120,086)	(10,219)	(39,090)				
Operating Transfers Out	(1,622,056)		(343,969)	(1,026,879)	(81,813)							
Sale of Fixed Assets	859,190		638,286	46,000	156,624	18,300						
Total Other Financing Sources (Uses)	859,190	752,677	294,297	(980,879)	944,190	(101,786)	(10,219)	(39,090)	0	0	0	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	7,874,593	22,840	3,030,063	271,545	1,610,699	1,887,080	151,948	236,299	7,733	291,694	3,123	361,569
Fund Balance, July 1, 2001	53,019,681	38,381	29,319,894	5,620,776	1,077,561	12,001,474	1,055,914	595,386	169,714	2,875,511	68,546	196,524
Fund Balance, June 30, 2002	\$ 60,894,274	\$ 61,221	\$ 32,349,957	\$ 5,892,321	\$ 2,668,260	\$ 13,886,554	\$ 1,207,862	\$ 831,685	\$ 177,447	\$ 3,167,205	\$ 71,669	\$ 558,093

AUDIT REPORT
SPECIAL DISTRICTS
COUNTY SERVICE AREA NO. 60
APPLE VALLEY AIRPORT
FOR COUNTY OF SAN BERNARDINO
CALIFORNIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
October 29, 2002

**County of San Bernardino Special Districts
County Service Area No. 60
Apple Valley Airport**

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Independent Auditor's Report

October 29, 2002

John William Ingraham, Director
Department of Airports
825 East Third Street
San Bernardino, CA 92415-0831

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 60 – APPLE VALLEY
 AIRPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 60 – Apple Valley Airport for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 60 – Apple Valley Airport (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002. These basic financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the County of San Bernardino Special District County Service Area No. 60 – Apple Valley Airport, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The County of San Bernardino Special District County Service Area No. 60 – Apple Valley Airport has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed:

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Statement of Net Assets
Proprietary Funds
June 30, 2002

	Enterprise Fund
	Airport
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 281,622
Interest receivable	8,573
Total current assets	<u>290,195</u>
Noncurrent assets:	
Capital assets:	
Land	743,336
Improvements to land	273,995
Structures and improvements	1,585,148
Equipment and vehicles	296,195
Less accumulated depreciation	<u>(1,139,004)</u>
Total noncurrent assets	<u>1,759,670</u>
Total assets	<u><u>\$ 2,049,865</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 22,946
Total current liabilities	<u>22,946</u>
Noncurrent liabilities:	
Total noncurrent liabilities	<u>-</u>
Total liabilities	<u>22,946</u>
NET ASSETS	
Invested in capital assets	1,759,670
Restricted	-
Unrestricted	<u>267,249</u>
Total net assets	<u>2,026,919</u>
Total liabilities and net assets	<u><u>\$ 2,049,865</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2002

	Enterprise Fund Airport
OPERATING REVENUES	
Charges for services	\$ 170,270
Total operating revenues	<u>170,270</u>
OPERATING EXPENSES	
Salaries and benefits	351,118
Professional services	61,636
Services and supplies	124,321
Utilities	55,352
Rents and leases	5,959
Depreciation	176,092
Total operating expenses	<u>774,478</u>
Operating income (loss)	<u>(604,208)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	27,507
Property taxes	1,047,072
Other taxes	20,583
State aid	33,792
Other nonoperating revenues	8,350
Contributions to the Special Aviation Construction Fund	<u>(725,384)</u>
Total nonoperating revenues (expenses)	<u>411,920</u>
Change in net assets	(192,288)
Net assets - beginning	<u>2,219,207</u>
Net assets - ending	<u><u>\$ 2,026,919</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002

	Enterprise Fund
	Airport
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 170,270
Payments to employees for services	(353,442)
Payments to suppliers for goods and services	(247,269)
Other payments	-
Net cash provided (used) by operating activities	<u>(430,441)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	1,067,655
Grants received	33,792
Other receipts	8,350
Net cash provided (used) by noncapital financing activities	<u>1,109,797</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contributions to the Special Aviation Construction Fund	(725,384)
Net cash provided (used) by capital and related financing activities	<u>(725,384)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	29,621
Net cash provided (used) by investing activities	<u>29,621</u>
Net increase (decrease) in cash and cash equivalents	(16,407)
Cash and cash equivalents - beginning	<u>298,468</u>
Cash and cash equivalents - ending	<u><u>\$ 282,061</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (604,208)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	176,092
Change in assets and liabilities:	
Increase in receivables, net	-
Increase in accounts and other payables	(2,325)
Net cash provided (used) by operating activities	<u><u>\$ (430,441)</u></u>

**County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area (CSA) No. 60 – Apple Valley Airport (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on December 19, 1966 to provide airport service to the Town of Apple Valley. Currently, the District administers control and staffs the airport, funding the operation and maintenance of the Apple Valley Airport. There is not an advisory commission for this District.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County. The accompanying financial statements reflect only the accounts of County Service Area No. 60 and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise funds is charges to customers for rental of hangars and other leases. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

**County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CONTRIBUTION TO THE SPECIAL AVIATION CONSTRUCTION FUND

The Special Aviation Construction Fund is used to finance Apple Valley Airport land purchases and development.

NOTE 4: CAPITAL ASSETS

The statement of net assets includes those capital assets among the assets of County Service Area No. 60 as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for business-type activities for the year ended June 30, 2002 follows.

County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002

NOTE 4: CAPITAL ASSETS - Continued

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets not being depreciated:				
Land	\$ 743,336	\$ -	\$ -	\$ 743,336
Total capital assets not being depreciated	743,336	-	-	743,336
Capital assets being depreciated:				
Improvements to land	267,891	6,104	-	273,995
Structures and improvements	1,585,148	-	-	1,585,148
Vehicles	241,837	-	5,000	236,837
Equipment	59,358	-	-	59,358
Total capital assets being depreciated	2,154,234	6,104	5,000	2,155,338
Less accumulated depreciation for:				
Improvements to land	162,750	8,843	-	171,593
Structures and improvements	742,671	52,838	-	795,509
Vehicles	129,950	23,709	5,000	148,659
Equipment	17,981	5,262	-	23,243
Total accumulated depreciation	1,053,351	90,652	5,000	1,139,004
Total capital assets being depreciated, net	1,100,882	84,548	-	1,016,334
Total net capital assets	\$ 1,844,218	\$ 84,548	\$ -	\$ 1,759,670

**County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002**

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the

County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002

NOTE 6: FEDERAL AND STATE GRANTS - *Continued*

grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002

NOTE 7: SELF INSURANCE - *Continued*

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

County Service Area No. 60 did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 8: CONTINGENCIES

As of June 30, 2002, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Business-Type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2002	
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 1,759,670
Add: Prior year contributed capital	-
Less: Revolving loans payable	-
	<u>1,759,670</u>
Restricted	-
Unrestricted	<u>267,249</u>
Total Net Assets	<u>\$ 2,026,919</u>

**County of San Bernardino
County Service Area No. 60 – Apple Valley Airport
Notes to the Financial Statements
June 30, 2002**

NOTE 10: PRIOR PERIOD ADJUSTMENT TO FUND BALANCE

On July 1, 2001, fund balance was understated by \$ 991,718. There has been a restatement of fund balance with a prior period adjustment recorded to correct the erroneous depreciation taken on a structure from 1972 to 1987 and other accumulated depreciation adjustments on vehicles and equipment. The restatement of fund balance is as follows:

Fund balance previously reported at June 30, 2001	\$ 1,227,489
Prior Period Adjustment to correct error	<u>991,718</u>
Fund Balance Restated, June 30, 2001	<u><u>\$ 2,219,207</u></u>

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
MONTE VISTA FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
November 8, 2002**

**County of San Bernardino Special Districts
Monte Vista Fire Protection District
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Independent Auditor's Report

November 8, 2002

Emil A. Marzullo, Director

Office of Special Districts
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF MONTE VISTA FIRE PROTECTION DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Monte Vista Fire Protection District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Monte Vista Fire Protection District as of June 30, 2002. These financial statements are the responsibility of Monte Vista Fire Protection District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities of the Monte Vista Fire Protection District as of June 30, 2002 and the changes in financial position for the year then ended in conformity with accounting principles

generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standard Board Statement Nos. 34, 37, and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District - Monte Vista Fire Protection has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)

Date Report Distributed: _____

LDW: DVB: CDT:dlp1:

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Net Assets
June 30, 2002**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 151,024
Taxes receivable	13,302
Interest receivable	1,566
Total assets	<u>\$ 165,892</u>
LIABILITIES	
Current liabilities:	
Due to other governments	<u>\$ 109,208</u>
Total liabilities	109,208
NET ASSETS	
Unrestricted	<u>56,684</u>
Total net assets	<u>56,684</u>
Total liabilities and net assets	<u>\$ 165,892</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Activities
For the Year Ended June 30, 2002**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 233,778
Services and supplies	3,165
Total expenses	<u>236,943</u>
PROGRAM REVENUES	
Other services	<u>(4,235)</u>
Total program revenues	<u>(4,235)</u>
Net program (expense) revenue	<u>(241,178)</u>
GENERAL REVENUES	
Property taxes	241,385
Interest	5,496
Total general revenues	<u>246,881</u>
Change in net assets	5,703
Net assets - beginning	<u>50,981</u>
Net assets - ending	<u><u>\$ 56,684</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2002**

	Fire (SRP)
ASSETS	
Cash and cash equivalents	\$ 151,024
Interest receivable	1,566
Taxes receivable	13,302
Total assets	<u>\$ 165,892</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	109,208
Total liabilities	<u>109,208</u>
Fund balances:	
Unreserved	56,684
Total fund balances	<u>56,684</u>
Total liabilities and fund balances	<u><u>165,892</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2002**

	Governmental Funds
REVENUES	
Property taxes	\$ 241,385
Interest	5,496
Other services	(4,235)
Total revenues	<u>242,646</u>
EXPENDITURES	
Professional services	233,778
Services and supplies	<u>3,165</u>
Total expenditures	<u>236,943</u>
Excess of revenues over (under) expenditures	<u>5,703</u>
Net change in fund balances	5,703
Fund balances - beginning	<u>50,981</u>
Fund balances - ending	<u><u>\$ 56,684</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: THE FINANCIAL REPORTING ENTITY

Reporting Entity

Monte Vista is a fire protection district located within the County of San Bernardino. The Fire Protection District has governmental powers as established by the San Bernardino County Government Charter (the county). The County of San Bernardino was established in 1852 as a legal subdivision of the State of California. Monte Vista Fire Protection District's powers are exercised through a Board of Supervisors (the "Board"), which is the governing body for the County. Monte Vista provides fire protection services for an unincorporated area southwest of the City of Montclair.

The Fire Protection District was established by an act of the Board of Supervisors of the County of San Bernardino on July 19, 1948 with active powers of fire protection and emergency medical services for an unincorporated area southwest of the City of Montclair through a contract.

Monte Vista Fire Protection District is a component unit of the County of San Bernardino. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Monte Vista Fire Protection and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Monte Vista Fire Protection District utilizes a special revenue fund. It accounts for all financial resources of the general government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the CSA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of the following:

	<u>Governmental</u>
Interest	1,566
Taxes	<u>13,302</u>
Net Total Receivables	<u>\$ 14,868</u>

NOTE 4: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk

**County of San Bernardino
Monte Vista Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: SELF INSURANCE – Continued

Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

Monte Vista Fire Protection did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 5: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 6: CONTRACTED FIRE PROTECTION SERVICES

The District receives fire protection and prevention services under contract from the City of Montclair. The District pays the City of Montclair the tax revenue received by the District in return for services.

**County of San Bernardino
Monte Vista Fire Protection District
Required Supplementary Information
For the Fiscal Year Ended June 30, 2002**

Fire Protection	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (negative)
Budgetary fund balance				
July 1, 2001	\$ 50,981	\$ 50,981	\$ 50,981	\$ -
Resources (inflows):				
Property Taxes	221,435	224,935	241,385	16,450
Interest	3,200	3,200	5,496	2,296
Charges for Services		(3,500)	(4,235)	(735)
Other Revenue	-	-	-	-
Amounts available for appropriation:	275,616	275,616	293,627	18,011
Charges to appropriations (outflows)				
Professional Services	275,616	272,451	233,778	38,673
Materials and Supplies	-	3,165	3,165	-
Reimbursements	-	-	-	-
Total charges to Appropriations	275,616	275,616	236,943	38,673
Budgetary Fund Balance, June 30, 2002	\$ -	\$ -	\$ 56,684	\$ 56,684

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
YUCCA VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
November 19, 2002**

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
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Independent Auditor's Report

November 19, 2002

Emil A. Marzullo, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF YUCCA VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Yucca Valley Fire Protection District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District Yucca Valley Fire Protection, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District Yucca Valley Fire Protection, as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District Yucca Valley Fire Protection has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)

LDW:BKR:CR:spr.2

Date Report Distributed: _____

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
June 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 214,313	\$ 110,550	\$ 324,863
Accounts receivable		444,499	444,499
Less allowance for uncollectible accounts		(223,716)	(223,716)
Taxes receivable	142,074		142,074
Interest receivable	42	2,033	2,075
Total current assets	356,429	333,366	689,795
Noncurrent assets:			
Capital assets:			
Land	8,271		8,271
Construction in progress	88,220		88,220
Improvements to land	8,359		8,359
Structures and improvements	134,660		134,660
Equipment and vehicles	1,419,996	272,098	1,692,094
Less accumulated depreciation	(1,139,040)	(177,193)	(1,316,233)
Total noncurrent assets	520,466	94,905	615,371
Total assets	\$ 876,895	\$ 428,271	\$ 1,305,166
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	\$ 5,809	\$ -	\$ 5,809
Due to other governments	276,341	-	276,341
Total current liabilities	282,150	-	282,150
Noncurrent liabilities:			
Employee compensated absences	1,696		1,696
Total noncurrent liabilities	1,696	-	1,696
Total liabilities	283,846	-	283,846
NET ASSETS			
Invested in capital assets	520,466	94,905	615,371
Unrestricted	72,583	333,366	405,949
Total net assets	593,049	428,271	1,021,320
Total liabilities and net assets	\$ 876,895	\$ 428,271	\$ 1,305,166

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Activities
For the Year Ended June 30, 2002**

	Governmental Activities	Business-Type Activities	Total
EXPENSES			
Salaries and benefits	\$ 2,791,637	\$ 21,953	\$ 2,813,590
Professional services	-	63,756	63,756
Services and supplies	557,089	415,421	972,510
Depreciation	121,793	25,110	146,903
Total expenses	<u>3,470,519</u>	<u>526,240</u>	<u>3,996,759</u>
PROGRAM REVENUES			
Charges for services	-	1,115,787	1,115,787
Total program revenues	<u>-</u>	<u>1,115,787</u>	<u>1,115,787</u>
Net program (expense) revenue	<u>(3,470,519)</u>	<u>589,547</u>	<u>(2,880,972)</u>
GENERAL REVENUES			
Property taxes	2,447,313		2,447,313
Other taxes	49,830		49,830
Interest	1,988	6,691	8,679
Rents and concessions	12,021		12,021
State aid	56,757		56,757
Federal aid	9,386		9,386
Other	4,478	10,847	15,325
Transfers in (out)	590,000	(590,000)	-
Total general revenues and transfers	<u>3,171,773</u>	<u>(572,462)</u>	<u>2,599,311</u>
Change in net assets	<u>(298,746)</u>	<u>17,085</u>	<u>(281,661)</u>
Net assets - beginning	891,795	411,186	1,302,981
Net assets - ending	<u>\$ 593,049</u>	<u>\$ 428,271</u>	<u>\$ 1,021,320</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2002**

	Fire (SRS,CKA)	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 214,313	\$ 214,313
Interest receivable	42	42
Taxes receivable	142,074	142,074
	<hr/>	<hr/>
Total assets	\$ 356,429	\$ 356,429
	<hr/>	<hr/>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and benefits payable	\$ 5,809	\$ 5,809
Due to other governments	276,341	276,341
Total liabilities	282,150	282,150
	<hr/>	<hr/>
Fund balances:		
Unreserved	74,279	74,279
Total fund balances	74,279	74,279
	<hr/>	<hr/>
Total liabilities and fund balances	\$ 356,429	
	<hr/>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

520,466

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

(1,696)

Net assets of governmental funds

\$ 593,049

The notes to the financial statements are an integral part of this statement.

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	Fire (SRS, CKA)
REVENUES	
Property taxes	\$ 2,447,313
Other taxes	49,830
Interest	1,988
Rents and concessions	12,021
State aid	56,757
Federal aid	9,386
Other	4,478
Total revenues	<u>2,581,773</u>
EXPENDITURES	
Salaries and benefits	2,791,637
Services and supplies	557,089
Capital outlay	306,111
Total expenditures	<u>3,654,837</u>
Excess of revenues over (under) expenditures	(1,073,064)
OTHER FINANCING SOURCES (USES)	
Transfers in	<u>590,000</u>
Total other financing sources (uses)	<u>590,000</u>
Net change in fund balances	(483,064)
Fund balances, beginning	<u>557,343</u>
Fund balances, ending	<u><u>\$ 74,279</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$ (483,064)
--	--------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

184,318

Change in net assets of governmental activities	<u><u>\$ (298,746)</u></u>
---	----------------------------

The notes to the financial statements are an integral part of this statement.

County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
Propriety Fund
June 30, 2002

	<u>Enterprise Fund</u>
	<u>Ambulance</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 110,550
Accounts receivable	444,499
Less allowance for uncollectible accounts	(223,716)
Interest receivable	2,033
Total current assets	<u>333,366</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	272,098
Less accumulated depreciation	(177,193)
Total noncurrent assets	<u>94,905</u>
Total assets	<u><u>\$ 428,271</u></u>
LIABILITIES	
Current liabilities:	<u>\$ -</u>
Noncurrent liabilities:	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Invested in capital assets	94,905
Unrestricted	333,366
Total net assets	<u>428,271</u>
Total liabilities and net assets	<u><u>\$ 428,271</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2002**

	<u>Enterprise Fund</u>
	<u>Ambulance</u>
OPERATING REVENUES	
Charges for services	\$ 1,115,787
Total operating revenues	<u>1,115,787</u>
OPERATING EXPENSES	
Salaries and benefits	21,953
Professional services	63,756
Services and supplies	415,421
Depreciation	25,110
Total operating expenses	<u>526,240</u>
Operating income (loss)	<u>589,547</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	6,691
Other nonoperating revenues	10,847
Total nonoperating revenues (expenses)	<u>17,538</u>
Income before contributions and transfers	607,085
Transfers Out	<u>(590,000)</u>
Change in net assets	17,085
Net assets - beginning	<u>411,186</u>
Net assets - ending	<u><u>\$ 428,271</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2002**

	Enterprise Fund Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 639,685
Payments to employees for services	(21,953)
Payments to suppliers for goods and services	(15,700)
Other payments	(63,756)
Net cash provided by operating activities	<u>538,276</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(590,000)
Other receipts	10,847
Net cash used by noncapital financing activities	<u>(579,153)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
NONE	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>6,389</u>
Net cash provided by investing activities	<u>6,389</u>
Net increase (decrease) in cash	(34,488)
Cash and cash equivalents - beginning	<u>145,038</u>
Cash and cash equivalents - ending	<u><u>\$ 110,550</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 589,547
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	25,110
Change in assets and liabilities:	
Increase in receivables, net	(99,847)
Decrease in due from other governments	23,466
Net cash provided by operating activities	<u><u>\$ 538,276</u></u>
Noncash investing, capital, and financing activities:	
NONE	

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Yucca Valley Fire Protection District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on July 1951 with the active powers of fire (suppression, prevention, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Yucca Valley.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the Yucca Valley Fire Protection District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "Fire Protection" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Fire Protection District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the transport activities of the District. The Fire Protection District operates the ambulance under the administration of San Bernardino County Fire Department

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The government reports the following major capital project fund:

The capital project fund labeled "Fire Protection - CKA" is used to account for the fire station remodel. Governmental resources are used to finance this project.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectible accounts when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements to land	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2002 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 1,304	766	374	\$ 1,696

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$184,318 difference are as follows:

Capital outlay	\$ 306,111
Depreciation expense	<u>(121,793)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>184,318</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of the following:

	<u>Governmental</u>	<u>Business-Type</u>
Accounts	\$ -	\$ 220,783
Interest	42	2,033
Taxes	<u>142,074</u>	<u>-</u>
Net Total Receivables	<u>\$142,116</u>	<u>\$ 222,816</u>

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Yucca Valley Fire Protection District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2002 follows. All governmental assets and depreciation are from the fire protection activity.

Governmental activities

	Balance at June 30, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets not being depreciated:				
Land	\$ 8,271			\$ 8,271
Construction in progress	7,094	81,126		88,220
Total capital assets not being depreciated	15,365	81,126		96,491
Capital assets being depreciated:				
Improvements to land	8,359			8,359
Structures and improvements	134,660			134,660
Equipment	64,356			64,356
Vehicles	1,130,655	224,985		1,355,640
Total capital assets being depreciated	1,338,030	224,985		1,563,015
Less accumulated depreciation for:				
Improvements to land	4,005	209		4,214
Structures and improvements	6,234	2,992		9,226
Equipment	42,703	3,432		46,135
Vehicles	964,305	115,160		1,079,465
Total accumulated depreciation	1,017,247	121,793		1,139,040
Total capital assets being depreciated, net	320,783	103,192		423,975
Total net capital assets	\$ 336,148	\$184,318		\$ 520,466

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 4: CAPITAL ASSETS – Continued

Business-type activities

	Balance at June 30, 2001	Additions	Disposals	Balance at June 30, 2002
Capital assets being depreciated:				
Equipment	\$ 37,991			\$ 37,991
Vehicles	319,717		85,610	234,107
Total capital assets being depreciated	357,708	0	85,610	272,098
Less accumulated depreciation for:				
Equipment	26,776		1,421	25,355
Vehicles	210,917	25,110	84,189	151,838
Total accumulated depreciation	237,693	25,110	85,610	177,193
Total capital assets being depreciated, net	120,015	25,110	1,421	94,905
Total net capital assets	\$ 120,015	\$ 25,110	\$ -	\$ 94,905

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Fire Station Remodel	167,906	\$ 88,220	2003
Total		<u>\$ 88,220</u>	

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 5: RETIREMENT PLAN - *Continued*

Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$309,933 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 7: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The only insurance costs that the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$168,197 for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 7: SELF INSURANCE - Continued

liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

Yucca Valley Fire Protection District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance,

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 7: SELF INSURANCE - Continued

employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 8: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SRS	To CKA for fire station remodel	\$ 15,000
SRS	From EGP for share of ambulance costs	(590,000)
CKA	From SRS for fire station remodel	(15,000)
EGP	To SRS for share of ambulance costs	590,000
Net interfund transfers		<u>\$ -</u>

NOTE 9: CONTINGENCIES

As of June 30, 2002, in the opinion of the Fire Protection District Administration, there are no outstanding matters, which would have a significant effect on the financial position of the District.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Yucca Valley Fire Protection District
Notes to the Financial Statements
June 30, 2002**

NOTE 11: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Invested in capital assets, net of related debt: June 30, 2002	\$ -	\$ -
Net land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	520,466	94,905
Unrestricted	<u>72,583</u>	<u>333,366</u>
Total net assets	<u><u>\$ 593,049</u></u>	<u><u>\$ 428,271</u></u>

Required Supplementary Information
County of San Bernardino
Yucca Valley Fire Protection District
Budgetary Comparison Schedule – Special Revenue Funds
June 30, 2002

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary fund balance July 1, 2001	\$ 556,019	\$ 556,019	\$ 557,343	\$ 1,324
Resources (Inflows):				
Property taxes	2,496,060	2,449,627	2,447,313	(2,314)
Other taxes	-	-	49,830	49,830
Interest and rents	37,000	37,000	14,009	(22,991)
State aid	-	31,041	56,757	25,716
Federal aid	-	15,392	9,386	(6,006)
Other	-	-	4,478	4,478
Operating transfer in	810,000	1,086,302	590,000	(496,302)
Amount available for				-
appropriation	<u>\$3,899,079</u>	<u>\$4,175,381</u>	<u>\$ 3,729,116</u>	<u>\$ (446,265)</u>
Charges to appropriations (Outflows):				
Salaries and benefits	\$2,886,586	\$3,147,888	\$ 2,791,637	\$ 356,251
Services and supplies	570,184	570,184	557,089	13,095
Other charges	1,575	1,575	-	1,575
Capital outlay	302,891	317,891	306,111	11,780
Operating transfers out	10,000	25,000	-	25,000
Reserves and contingencies	127,843	112,843	-	112,843
Total charges to appropriations	<u>3,899,079</u>	<u>4,175,381</u>	<u>3,654,837</u>	<u>520,544</u>
Budgetary fund balance June 30, 2002	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,279</u>	<u>\$ 74,279</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
BLOOMINGTON PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
October 23, 2002

**County of San Bernardino Special Districts
Bloomington Park and Recreation District**

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Independent Auditor's Report

October 23, 2002

Emil A. Marzullo, Director

Office of Special Districts

157 W. Fifth Street, Second Floor

San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF BLOOMINGTON PARK AND RECREATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Bloomington Park and Recreation District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District Bloomington Park and Recreation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District Bloomington Park and Recreation District as of June 30, 2002, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special District Bloomington Park and Recreation District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3) _____
Date Report Distributed: _____

LDW:DVB:AMC:spr.2

**County of San Bernardino
Bloomington Park and Recreation District
Statement of Net Assets
June 30, 2002**

ASSETS

Current assets:

Cash and cash equivalents	\$ 140,144
Interest receivable	8,920
Total current assets	<u>149,064</u>

Noncurrent assets:

Capital assets:

Land	92,750
Improvements to land	846,589
Structures and improvements	418,489
Equipment and vehicles	68,548
Less accumulated depreciation	<u>(886,609)</u>

Total noncurrent assets	<u>539,767</u>
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Total assets	<u><u>\$ 688,831</u></u>
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LIABILITIES

Current liabilities:

Salaries and benefits payable	\$ 539
Accounts payable	<u>3,720</u>
Total current liabilities	4,259

Noncurrent liabilities:

Total liabilities	<u>-</u> <u>4,259</u>
-------------------	--------------------------

NET ASSETS

Invested in capital assets	539,767
Restricted	-
Unrestricted	<u>144,805</u>
Total net assets	<u>684,572</u>

Total liabilities and net assets	<u><u>\$ 688,831</u></u>
----------------------------------	--------------------------

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Bloomington Park and Recreation District
Statement of Activities
For the Year Ended June 30, 2002**

EXPENSES

Salaries and benefits	\$ 70,155
Services and supplies	69,108
Depreciation	25,114
Total expenses	<u>164,377</u>

PROGRAM REVENUES

Charges for services	12,423
Operating transfer in	21,976
Total program revenues	<u>34,399</u>

Net program (expense) revenue	<u>(129,978)</u>
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GENERAL REVENUES

Property taxes	140,485
Interest	4,317
Other revenues	2,720
Total general revenues	<u>147,522</u>

Change in net assets	17,544
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Net assets - beginning	<u>667,028</u>
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Net assets - ending	<u><u>\$ 684,572</u></u>
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Bloomington Park and Recreation District
Balance Sheet
Governmental Funds
June 30, 2002**

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 114,359	\$ 25,785	\$ 140,144
Interest receivable	8,638	282	8,920
Total assets	<u>\$ 122,997</u>	<u>\$ 26,067</u>	<u>\$ 149,064</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ -	\$ 539	\$ 539
Accounts payable	3,720	-	3,720
Total liabilities	<u>3,720</u>	<u>539</u>	<u>4,259</u>
Fund balances:			
Unreserved	119,277	25,528	144,805
Total fund balances	<u>119,277</u>	<u>25,528</u>	<u>144,805</u>
Total liabilities and fund balances	<u>\$ 122,997</u>	<u>\$ 26,067</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>539,767</u>
Net assets of governmental activities	<u>\$ 684,572</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Bloomington Park and Recreation District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	Park and Rec (SSD)	Swim Program (SSE)	Total Governmental Funds
REVENUES			
Property taxes	\$ 138,052	\$ -	\$ 138,052
Other taxes	2,433	-	2,433
Government aid	3,020	-	3,020
Interest	3,360	957	4,317
Other services	354	-	354
Other revenues	11,663	106	11,769
Total revenues	158,882	1,063	159,945
EXPENDITURES			
Salaries and benefits	48,315	21,840	70,155
Professional services	7,020	-	7,020
Services and supplies	23,725	4,491	28,216
Utilities	33,448	-	33,448
Rents and leases	424	-	424
Capital outlay	8,987	-	8,987
Total expenditures	121,919	26,331	148,250
Excess of revenues over (under) expenditures	36,963	(25,268)	11,695
OTHER FINANCING SOURCES (USES)			
Transfers in	-	21,976	21,976
Total other financing sources (uses)	-	21,976	21,976
Net change in fund balances	36,963	(3,292)	33,671
Fund balances - beginning	82,314	28,820	111,134
Fund balances - ending	\$ 119,277	\$ 25,528	\$ 144,805

**County of San Bernardino
Bloomington Park and Recreation District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$	33,671
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(16,127)

Change in net assets of governmental activities	\$	17,544
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Bloomington Park and Recreation District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino and maintains two community parks, an equestrian arena, sports fields, and a community center. Currently, an ECD block grant funds a summer swim program within the community of Bloomington.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Bloomington Park and Recreation District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "Park and Recreation" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

The *special revenue fund* labeled "Swim Program" provides fee exempt recreation opportunities and swim lessons for economically disadvantaged families in Bloomington.

There are also four *capital projects funds*: Water Park at Ayala Park, Ayala Park Fountain, Street Improvement, and Ayala Park Improvement. These capital project funds provide improvements and maintenance for the water park and street.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$16,127 difference are as follows:

Capital Outlay	\$ 8,987
Depreciation Expense	<u>25,114</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u><u>(16,127)</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the CSA's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Bloomington Park and Recreation District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 3: CAPITAL ASSETS - *Continued*

June 30, 2002 follows. All governmental assets and depreciation are from park and recreation activity.

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 92,750	\$ -	\$ -	\$ 92,750
Total capital assets not being depreciated	92,750	-	-	92,750
Capital assets being depreciated:				
Improvements to land	846,589	-	-	846,589
Structures and improvements	418,489	-	-	418,489
Vehicles	42,709	8,987	-	51,696
Equipment	16,852	-	-	16,852
Total capital assets being depreciated	1,324,639	8,987	-	1,333,626
Less accumulated depreciation for:				
Improvements to land	638,416	14,759	-	653,175
Structures and improvements	170,168	9,068	-	179,236
Vehicles	36,932	671	-	37,603
Equipment	15,979	616	-	16,595
Total accumulated depreciation	861,495	25,114	-	886,609
Total capital assets being depreciated, net	463,144	16,127	-	447,017
Total net capital assets	\$ 555,894	\$16,127	\$ -	\$ 539,767

NOTE 4: RETIREMENT PLAN

Plan description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 4: RETIREMENT PLAN - *Continued*

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District (MDAQMD)
South Coast Air Quality Management District (AQMD)
Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs for annual premiums for the year ended June 30, 2002.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 6: SELF INSURANCE - Continued

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2000-01	\$ 52,853	13,384	(5,065)	\$ 61,172
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 6: SELF INSURANCE - *Continued*

Bloomington Park and Recreation District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2002.

NOTE 7: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following Interfund Transfers In and Out to fund the summer swim program within the community of Bloomington:

	<u>Transfers in: Swim Program (SSE)</u>	<u>Total</u>
Transfer out:		
CDBG Projects (SBA ECD)	\$ 21,975.50	\$ 21,975.50
Total	<u>\$ 21,975.50</u>	<u>\$ 21,975.50</u>

NOTE 8: CONTINGENCIES

As of June 30, 2002, in the opinion of the District Administration, there are no outstanding matters, which would have a significant effect on the financial position of the District.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Bloomington Park and Recreation District
Notes to the Financial Statements
June 30, 2002**

NOTE 10: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2002	
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 539,767
Add: Prior year contributed capital	-
Less: Revolving loans payable	-
	<u>539,767</u>
Restricted	-
Unrestricted	<u>144,805</u>
Total Net Assets	<u>\$ 684,572</u>

Required Supplementary Information
County of San Bernardino
Bloomington Park and Recreation District
Budgetary Comparison Schedule – Special Revenue Funds
June 30, 2002

SPECIAL REVENUE FUNDS				
General and Swim Program				
	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Property taxes	\$ 132,838	\$ 132,838	\$ 140,485	\$ 7,647
Interest and rents	1,000	1,000	4,317	3,317
Operating transfers in	36,207	36,207	21,976	(14,231)
Charges for services	500	500	12,423	(146)
Other revenue	-	-	2,720	14,789
	<u>170,545</u>	<u>170,545</u>	<u>181,921</u>	<u>11,376</u>
Total revenues				
EXPENDITURES:				
Salaries and benefits	72,568	73,281	70,155	3,126
Services and supplies	99,709	98,996	69,108	29,888
Capital Outlay	10,500	10,500	8,987	1,513
Reserves and contingencies	98,902	98,902	-	98,902
	<u>281,679</u>	<u>281,679</u>	<u>148,250</u>	<u>133,429</u>
Total expenditures				
Net change in Fund Balances	<u>\$ (111,134)</u>	<u>\$ (111,134)</u>	33,671	<u>\$ 144,805</u>
Fund Balances - beginning			<u>111,134</u>	
Fund Balances - ending			<u>\$ 144,805</u>	

September 18, 2002

Ed Kieczkowski, County Librarian
County Library
104 West Fourth Street
San Bernardino, CA 92415-0035

SUBJECT: CHINO HILLS BRANCH LIBRARY MISSING FUNDS

Introductory Remarks

We have completed an audit of the possible cash loss and the internal controls in place over cash at the Chino Hills Branch Library. The audit was conducted pursuant to the authority granted under Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisors' Policy Statement of Internal Operational Auditing.

Background

The audit was conducted in response to an incident report received by the Auditor/Controller-Recorder's Office on April 15, 2002. The report was made to the Sheriff's Department at Chino Hills after the Chino Hills Branch Manager could not locate several financial records and it appeared that currency was missing from several deposits for the month of March, 2002. The purported cash loss was also filed with Risk Management.

Audit Scope

Our audit covered the period September 1999 to March 2002 and was made in accordance with the standards developed by the Institute of Internal Auditors. We also reviewed compliance with the procedures outlined in the San Bernardino County Internal Controls and Cash Standard Practice Manual, in the addition to the Library's Cash Control Policy.

As discussed with library management during the Entrance Conference, this audit was conducted for several purposes:

- (1) To provide an approximate amount of the cash loss (see **Part I** of this report) and
- (2) To assess the effectiveness of existing internal controls over the cash receipting process (see **Part II** of this report).

We reviewed recorded receipts as well as sample transactions, procedures, and records covering the audit period. Deposits and related transactions for April, May, and June, 2002, were also examined to provide a comparative assessment of reported transactions for the audit period.

This audit, conducted for the limited purposes described above, would not necessarily disclose all material weaknesses in internal controls. A material weakness is a condition in which the design or operation of one or more of the internal controls does not reduce to a relatively low level the risk that material errors or fraud may occur and be detected timely by employees during the normal course of performing their duties. Accordingly, we did note some conditions which require immediate attention. These weaknesses were brought to management's attention and corrective action has already been implemented in some cases.

A draft report was sent to the County Library on November 21, 2002 and was discussed at the Exit Conference on December 10, 2002. The Library's responses to our recommendations dated January 16, 2003 are included in this report.

Part I – Loss Estimate

We estimate that \$79,145 received by the Chino Hills Branch Library between September 1999 and March 2002 could not be accounted for:

September 1999 to June 2000 (10 months)	\$12,882
July 2000 to June 2001 (12 months)	31,587
July 2001 to March 2002 (9 months)	<u>34,676</u>
	<u>\$79,145</u>

Our estimate was derived by comparing the Data Research Associate (DRA) Money Reports to bank deposits for the period. The daily DRA Money Report is prepared by Library Administration and e-mailed to the Branch daily. It records the previous day's collections receipted on the automated system. The related system summary report is generated monthly by Library Administration. These reports were adjusted for manually recorded refunds and miscellaneous adjustments before making comparisons. Discussions with the Branch and Regional Managers disclosed that staff sometimes did not record transactions when a receipt was not requested by the patron or payment received was unrelated to the patron's account. Further, various source documents used to account for revenues could not be located for September 1999 through November 2001.

Accordingly, we were unable to determine the actual loss from these transactions. In addition, the system does not provide an adequate audit trail as it was not programmed to account for refunds or miscellaneous adjustments.

Recommendation:

Implement a cash receipting, recording, and reporting system that will provide accurate and timely financial information. Submit a request to Risk Management to cover the amount of the loss.

Auditee's Response:

The Library's cash receipting, recording and reporting system is part of its online circulation system, which provides these basic functions daily. The Library is submitting a request to Risk Management to cover the amount of the loss.

Auditor's Response:

The Library's circulation system does not provide timely information:

- Branch staff cannot reconcile cash receipts until the next day.
- Manual controls have been implemented to compensate for the lack of information recorded by the system; however, they are not consistently followed or monitored.
- Reports do not provide adequate information.
- The circulation system does not track adjustments, refunds, or voids.

Part II – Assessment of Internal Controls

Executive Summary

Overall, we found that the Chino Hills Branch Library's cash receipting process had weak internal controls. We noted conditions at the Branch which could adversely affect its ability to safeguard, record, process, and report financial data according to County policy. These conditions, with recommendations for improvement, are summarized as follows.

Summary of Findings and Recommendations Respectively:

Finding 1: Library Administration did not use existing tools to monitor cash receipting activities.

Recommendation: Update procedures to include a consistent, independent review of transactions both at Library Administration and at the Branch.

Finding 2: The cash receipting process in place did not provide accountability for the library's revenues.

Recommendation: Institute a receipting system that will record amounts collected by each cashier on a daily basis.

Finding 3: Most controls over cash were inadequate.

Recommendation: Implement procedures to record and safeguard receipts. Deposit receipts timely and intact.

Finding 4: Segregation of duties was inadequate.

Recommendation: Separate the receipting and deposit functions.

Finding 5: Adequate reconciliations of monthly revenue reports were not conducted at the Branch or at Library Administration.

Recommendation: Reconcile daily receipts and deposits. Compare the validated deposit slips with the Branch's copy.

Finding 6: Procedures for processing refunds were not followed.

Recommendation: Forward refund requests over \$25.00 to Library Administration for processing. Update refund procedures to include review and approval at the Branch and at Library Administration.

Finding 7: County procedures regarding cash overages and/or shortages were not followed.

Recommendation: Maintain a log of all shortages and deposit overages as required. Consider requesting a Cash Difference Fund.

Finding 8: Changes in fund custodian were not properly communicated to the Internal Audits Section.

Recommendation: Immediately notify the Internal Audits Section of all fund custodian changes.

Finding 9: The Change Fund was maintained below the established level.

Recommendation: Submit a 'Relief from Liability' memo to the Internal Audits Section.

Finding 10: Voided transactions were not always recorded on the system.

Recommendation: Provide training to staff and emphasize the need to submit all voids to Library Administration.

Finding 11: Various source documents used to account for revenues could not be located.

Recommendation: Implement record retention policies to improve record keeping and to safeguard documents so that a reliable audit trail is provided for all transactions.

Finding 12: Reports did not provide accurate and consistent information.

Recommendation: Consider programming changes or updating the present system to improve the information reported in the automated reports. Document procedures for the preparation and review of all required reports.

Finding 13: Distributions for the Friends of the Library Program were not calculated correctly.

Recommendation: Implement changes to the receipting system so that sub-totals by programs are automatically generated.

Finding 14: Receipt books were not properly maintained.

Recommendation: Establish a tracking mechanism for all receipt books. Limit access to new and used books to designated employees.

ACTION TAKEN ON PRIOR FINDINGS AND RECOMMENDATIONS

The County Library Operational Audit Report dated June 24, 1999, contained ten findings, six of which applied to activities at branch locations. Four of the six recommendations were adopted at the Chino Hills Branch. Further recommended action for findings two and eight are shown below.

Prior Finding 2: The DRA Daily Money Report was not reconciled with the bank deposits on a daily basis.

Prior Recommendation:

Reconcile DRA Reports to the cash on hand for the same business day. Implement the use of a cash count/close-out sheet at the end of the business day.

Current Status:

The format of the Daily Money Report requires that the difference between the DRA Report and cash on hand be calculated and entered; however, there was no evidence an actual reconciliation was performed. (See also current Findings # 1 and # 6 in the **Findings and Recommendations** section below.)

Further Recommended Action:

Comply with prior recommendation.

Auditee's Response:

Library concurs.

Per response to current Finding 2 below; DRA reports of cash transactions aren't compiled until after midnight of the day of the transaction, so there is no amount available for reconciliation at the end of the business day. Branch managers have been instructed to reconcile receipts with the report automatically provided at the beginning of the next business day. A more detailed response to this recommendation was made in the prior report.

Prior Finding 8: Shortages and overages were not accounted for according to the Internal Control Manual.

Prior Recommendation:

Deposit overages and report shortages according to procedures in the Internal Control and Cash Manual.

Current Status:

This recommendation was not implemented at the Chino Hills Branch Library. The Regional Manager and the Branch Manager stated that they were not aware of the above recommendation for the County Library. Further, the branch did not have a copy of the Internal Control and Cash Manual. Library Administration updated written Cash Control procedures to require branch managers to regularly compare the DRA Daily Money Reports with amounts logged on the Daily Money Report Form, and report shortages to the Regional Manager. However, these procedures do not address overages. (See current Finding # 7 in the **Findings and Recommendations** section below.)

Further Recommended Action:

Comply with prior recommendation.

Auditee's Response:

Library concurs.

See response to Finding 7 below.

Auditor's Response:

Cash counted at the end of the day should agree with the DRA Report received the next day. If not, differences should be handled as recommended.

FINDINGS AND RECOMMENDATIONS

Finding # 1 Library Administration did not use existing tools to monitor cash receipting activities.

An essential element of any control system is monitoring to ensure that established procedures are followed. The risk that fraudulent activities will remain undetected increases in the absence of adequate monitoring.

Library Administration generated the DRA Monthly Money Report and required the Branch to submit a Record of Receipts and Reference Questions by the tenth of the following month. Refunds, void requests, and validated deposit slips were attached. A cursory review of these items would have revealed that reported receipts were not being deposited. The absence of this review enabled receipting, depositing, and reporting discrepancies to remain undetected for more than two years.

Further, although documented monitoring procedures for the Library were very limited, there was no evidence that these limited procedures were followed. For example, spot checks and unscheduled reviews were not conducted at the Branch as stipulated in the Library's Cash Control Policy.

Recommendation:

Update monitoring procedures to include Library Administration (as well as Branch personnel) review of cash receipting activities so that errors will be caught timely, and losses due to theft or carelessness will be discouraged.

Comply with the Library's Cash Control Policy which requires Library Administration to compare all branch receipts to the DRA Money Reports at least twice monthly. Investigate all monthly variances over \$200. Also, update the Cash Control Policy such that it specifies the minimum number of sight visits to be performed annually.

Auditee's Response:

Library concurs.

The Assistant County Librarian currently receives the monthly money report, reviews it for discrepancies and forwards it to the Regional Managers with comments as appropriate. The Regional Managers work directly with the manager of any branch showing discrepancies of \$100 or more, to try to determine causes and mitigation procedures. The Library is working to develop means to enable the Regional Managers to twice-monthly randomly compare daily DRA reports with reported receipts. Review of branch cash accounting and recordkeeping procedures will be formally included in the Branch Evaluation Form used by Regional Managers when performing regular branch visits.

Finding # 2 The cash receipting process in place did not provide accountability for the Branch's revenues.

The receipting process in place at the Branch was inadequate and needs to be improved. The automated system did not generate a record of receipts issued, track the intactness of receipts, nor did it identify the employee entering transactions. Receipts generated lacked most of the basic requirements set out in the County's Internal Controls and Cash Manual. The receipting process should fix accountability for monies received and generate duplicate imprints of transactions.

Recommendation:

Implement a cash receipting system that will determine daily the total revenue collected by all branches and cashiers, and will provide evidence of the amount of monies collected daily as well as its intactness. In the meantime,

- Maintain a control log or record of receipts issued, manual, or automated.
- Always issue a receipt. Receipts should be duplicated and contain:
 - Sequentially numbered receipt numbers
 - Department/County Name
 - Date
 - Amount received
 - Name/Account number of payee
 - Method of payment

- Nature of monies collected, i.e., fines, fees, etc.
- Identification of the cashier.
- Use Official County Receipts for manual receipts.
- Reconcile manual receipts daily to monies collected.
- Keep receipt books stored in a secure location.

Auditee's Response:

Library disagrees.

The Library's circulation system utilizes approximately 100 terminals/PCs in 29 branches staffed by approximately 300 full and part-time employees. It is not feasible to assign specific staff members to specific terminals, nor does the system function as a cash register; it is designed to record materials transactions plus payment of fines/fees but is not able to record refunds or errors, which must be manually logged. In addition, the day's activities aren't compiled by the system until midnight following the day's activities, so that cash transactions can only be compared with receipts on the following day.

DRA does not provide a method for numbering receipts nor for providing copies of those receipts, nor does it provide the level of detail itemized here. Per response to Finding 7 (below), the Chino Hills branch averaged 231 transactions per day, and \$1.28 per transaction. Maintaining/reconciling receipts in this environment is not practical. The Library maintains that the degree of accountability provided by DRA is adequate for library functions, when properly managed by library staff.

Auditor's Response:

The fact that the circulation system does not adequately provide controls over receipts is one of the reasons for recommending that the Library search for a software system that will provide better internal controls over the Library's cash receipting, recording, and reporting activities. In light of the Library's "cash loss history," it is imperative that we search for a circulation system that incorporates a cash receipting system to resolve several of the inherent weaknesses in the current manual and system internal controls.

Finding # 3 Most controls over cash were inadequate.

Each County department is required to develop and implement the necessary policies and procedures to ensure the control, safeguarding, and handling of cash. However, we discovered a lack of controls as the following practices were in effect at the Branch:

- Cash drawers were not locked during working hours when not in use or when staff was away from the counter.
- Excess cash removed from the drawers was kept in an unlocked filing cabinet, fully accessible to all employees.
- Prepared deposits were not safeguarded nor deposited promptly. Actual deposits were not made daily, as needed, or on designated days, nor were receipts deposited intact for the entire review period.
- Cash was not counted at the close of the business day and, although it was the library's policy not to have more than three times the daily cash limit on hand, deposits frequently exceeded this threshold by more than \$1,000.
- Deposits were not reconciled to the Daily Money Report log, nor were receipts, per the DRA Daily Money Report, reconciled to the actual cash count.
- Actual deposit slips were not properly prepared, initialed, and dated by preparer, or initialed by a second employee evidencing a second count. Blank deposit slips were not secured or tracked.
- There was no evidence that Library Administration followed up on discrepancies on the deposit slips submitted with the monthly report.

Recommendation:

Establish and implement additional control procedures for the cash receipting process. Procedures should include:

- Lock cash drawers at all times when unattended.
- Secure excess cash in a locked safe or filing cabinet during working hours, and immediately place the prepared deposit in a secured place until it is taken to the bank.
- Adjust staff schedules to allow time for cash counts at the end of the business day.
- Ensure cash on hand does not exceed three times the daily cash on hand limit of \$150.
- Deposit monies daily, as designated, or as needed, and deposit monies in tact.
- Reconcile: (a) daily cash receipted to the actual cash count, (b) deposit total to the daily cash logged, and (c) deposit total to the DRA Daily Money Report. Communicate standards for the preparation of deposit slips to staff and have employees preparing and reviewing the deposit to initial the deposit slip. Secure blank deposit slips to discourage inappropriate use.
- Update procedures to include review for compliance by Library Administration.

Auditee's Response:

Library concurs.

1. The number of staff members requiring access to the cash drawers in performance of circulation desk duty (see Finding 7) would necessitate each staff member having a key, negating the utility of locking drawers.
2. All branches have been provided with locking file cabinets or safes, and instructed to limit staff access to these repositories.
3. Staff schedules have been adjusted where practical.
- 4-5. Branch managers have instructions to make regular deposits to insure that cash on hand does not exceed the amounts allowed by the Library's cash on hand policy.
6. Proper use of the Daily Cash Report form should ensure reconciliation, with appropriate training being promulgated.
7. Branch Operating Manual, currently under revision, will include formal statement of findings in this report.

Finding # 4 Segregation of duties was inadequate.

The control objective underlying segregation of duties is that no one employee or group of employees should be in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. When any one individual is responsible for collecting cash, depositing receipts, and recording collections, the risk that fraud can occur is extremely high. At the Chino Hills Branch, all employees functioned as cashiers. They withdrew excess cash from the drawers, accessed envelopes used to store excess cash in a filing cabinet (kept unlocked during business hours), and input data onto the Daily Money Report Form. The Branch Manager and Library Administration personnel reported that one staff member was in charge of preparing and making deposits, preparing monthly money reports, as well as filing and maintaining all related documentation. When one person is in charge of preparing the deposit slips, making the deposit, and preparing the related reports, irregularities can occur and remain undetected.

Recommendation:

Provide for performance of duties by different individuals at various stages of the cash receipting process and for independent reviews of the work performed. Specifically:

- a) Separate the receipting and deposit preparation functions. Assign an employee other than the cashier or the individual issuing receipts to make deposits.
- b) Assign duties such that no one individual has access to the entire cash receipting process.

Auditee's Response:

Library concurs.

Branch managers had been instructed, and these instructions have been re-emphasized since the occurrence documented in this report, where possible to have one staff member compile the daily cash report, initialing the entry on the report form, and another prepare the deposits. In the smallest branches, with only 1 regular staff member, this capability is limited; but significant discrepancies will be revealed through reconciliation of the DRA report and deposits.

Finding # 5 Adequate reconciliations of monthly revenue reports were not conducted at the Branch or at Library Administration.

Reconciliations of monthly revenue reports were inadequate. Library Cash Control procedures require branch managers to "regularly" compare the DRA Monthly Money reports with amounts manually logged on the Branch's Daily Money Report. This comparison was not consistently performed and staff did not research and resolve differences. When two systems are tracking the same information, there must be a reconciliation of the systems. Further, the process did not require reconciling the bank's copy of the deposit slip with the branch's copy. When an employee knows controls are not monitored, an opportunity is provided to perpetuate and conceal fraud.

Recommendation:

In addition to the general bank reconciliations, establish and implement procedures for reconciliations between the Branch and Library Administration. Procedures should include updating the Library's Cash Control Policies to:

- Require a daily reconciliation of manual and automated receipts with the deposit, immediately resolving discrepancies.
- Compare validated deposit slips with the Branch's copy. This review should be conducted by an individual independent of deposit preparation.
- Require the supervisor to reconcile system receipts with cash receipts turned in at the end of each business day.
- Require Library Administration to compare system receipts with the Record of Receipts and Reference Questions submitted monthly by the Branch.

Auditee's Response:

Library concurs.

1. There is no feasible way for Library Administration staff to perform this reconciliation; this is the responsibility of the branch manager subject to review by the Regional Manager.
2. Validated deposit slips are compared with recorded deposits per #4 below.
3. Per Cash Control Procedures submitted to ACR in response to 1999 Management Audit, branch managers are to regularly compare DRA reports to receipts logged.
4. Office Administrator compares deposit slips with Record of Receipts monthly.

Auditor's Response:

According to the auditee's response for Finding #12, it is possible to manually reformat the Daily Money Report to incorporate deposit and cash receipt information that may be quickly compared at Administration.

Finding # 6 Procedures established for processing refunds were not followed.

The Library's Cash Control Policy required the following: refunds were to be logged on the Daily Money Report Form and also on the Record of Receipts and Reference Questions; refunds were to be made only for the "value of materials returned;" and refunds of more than \$25.00 were to be submitted to Library Administration for payment by check. In addition, branch practice stipulated that refunds be made only on presentation of the original receipt.

However, the auditor noted the following exceptions:

- All refunds over \$25.00 were not forwarded to Library Administration for processing, but were refunded at the branch.
- Refunds were made for fines.
- Refunds recorded on the Daily Money Report Form and the Record of Receipts and Reference Questions often did not agree nor were they reviewed. There were discrepancies in six of eight months sampled.
- There were 33 refunds made without an original receipt. None of these refunds showed evidence of supervisory review and approval. Five of these were refunded a second time using the original receipt.
- Receipt books could be accessed by staff at any time.
- Although refund slips were submitted with the monthly report to Library Administration, there was no evidence that Library Administration reviewed the refund slips for compliance.

Recommendation:

- Forward refunds over \$25.00 to County Library Administration for processing as required.
- Process refunds only for the value of the materials returned.
- Consistently log refunds on the Daily Money Report and also on the Monthly Report submitted to Library Administration.
- Secure copies of receipts held at the branch. If duplicate receipts are used to process refunds, prior supervisory approval should be documented.
- Update refund procedures to include review and approval at the Branch as well as review for compliance at Library Administration.

Auditee's Response:

Library concurs.

1. This is Library procedure included in the Branch Manual but not followed by the Chino Hills branch in the instances discovered.
2. As above.
3. This is included on the regular monthly report form.
4. See response to Finding 11 below. Restrictions on use of duplicate receipts held by branch as basis for refunds will be included in revised Branch Manual.
5. The Office Administrator has been instructed to review refund receipts and report any refunds made in the branch in excess of \$25.

Finding # 7 County procedures regarding cash overages and/or shortages were not followed.

Procedures outlined in the County's Internal Controls and Cash Manual regarding cash overages and shortages were not followed. Specifically, there were no procedures in place at the Branch for recognizing and/or handling cash overages and Library Administration has no procedures in place for the treatment of overages. Cash shortages recorded during the course of business were not investigated and resolved. Shortages and overages were netted and a single difference listed on the (in-house) Daily Money Report.

Recommendation:

Consider requesting a Cash Difference Fund from the Auditor/Controller-Recorder's Office. Implement procedures for identifying and reporting cash overages to ensure such funds are deposited to the Cash Overage Fund as required in the County's Internal Control and Cash Manual. Maintain a log documenting all daily shortages, showing amount, date, and name of staff

member identifying shortage. Report such shortages as required. Ensure that shortages and overages are not netted, but establish accountability for individual occurrences.

Auditee's Response:

Library concurs.

This recommendation is not practical. As noted in Finding 2, DRA is not able to record errors or refunds, so that precise matching of its report and daily deposits would only be possible by also including the manual correction logs (when keypunch errors are discovered in time), which are subject to significant entry error, in view of the number of staff members who must have access to circulation terminals. In addition, the number and size of transactions makes achieving precision both difficult and impractical; one week's cash activity at the Chino Hills branch involved 1,620 transactions for a total amount received of \$2079, for an average transaction amount of \$1.28.

The Library is reviewing the feasibility of revising its Record of Receipts form (submitted monthly) to include a column reflecting the daily DRA report amount. However, the Library is also reviewing the potential workload created by requiring the recommended documentation and reporting; per Finding 2 above, there is no way to practically limit the number of staff members handling cash transactions on DRA, DRA is not set up to function with the precision of cash registers, each branch library works with many daily transactions of mostly very small cash amounts, and the chance for minor errors is great, potentially requiring significant staff time to perform the recommended reporting.

Auditor's Response:

If cash is counted and documented at the close of every business day, differences can be readily identified the next day. A cash difference fund could then be utilized so that shortages and overages are not netted.

Finding # 8 Changes in fund custodian were not properly communicated to the Internal Audits Section.

Staff promotions affecting branch personnel during November 2000 led to a change in the designated Change Fund Custodian. This change was not forwarded to the Internal Audits Section of the Auditor/Controller-Recorder's Office as required. Records were last updated in 1998.

Recommendation:

Library Administration should immediately notify the Internal Audits Section of all fund custodian changes throughout the library system. For the Chino Hills Branch Change Fund, submit two completed Signature/Fund Custodian Authorization forms: the first to cancel the previous custodian; the second to establish the current custodian. In addition, submit a Request for New Vendor Code Form if the current custodian does not have a vendor number.

Auditee's Response:

Library concurs with Finding.

The Library has recently reviewed its list of fund custodians and has provided the Audits section with a current list, including the changes required for the Chino Hills branch.

Finding # 9 The Change Fund was maintained below the established level.

The Chino Hills Branch Library change fund was established at \$150.00. When counted, the Change Fund totaled \$148.00. According to the Branch Manager, the fund had been at that level for some time.

Recommendation:

Report the shortage to the Internal Audits Section of the Auditor/Controller-Recorder's Office by submitting a "Request for Relief from Liability" memo. Complete a FAS Payment Voucher using Object code 2095 – Cash Differences and attach it to the memo.

Auditee's Response:

Library concurs.

All branches have been reminded to maintain change funds at amount established with the ACR, with appropriate paperwork to be submitted for non-compliant branches.

Finding # 10 Voided transactions were not always recorded on the DRA System.

Branch personnel cannot void transactions entered in the DRA System. Voids must be manually recorded on a Money Code Error Sheet and forwarded to Library

Administration for system correction. Some of the staff members interviewed were not aware of written or verbal procedures for the treatment of voids and voided transactions. Library Administration had only one void request for fiscal year 2002. Follow-up discussion with the Branch Manager revealed that although some errors were manually corrected on site, the corresponding system corrections did not always occur.

Recommendation:

Develop individualized procedures for voiding automated receipts at the Branch. Consider programming changes to the automated system to allow branch personnel to void transactions on site but only with a supervisor's written approval. Maintain copies of all Money Error Code Sheets with supporting documents and forward originals to Library Administration with the monthly report.

Auditee's Response:

Library concurs.

Most branches have been submitting logs of voided transactions and errors monthly, as recorded on the monthly money report. All branches have been reminded of the need for compliance and uniform procedures are being developed to submit these online. Per response to Finding 2, DRA is not programmed to function as a cash register. In addition, due to the number of staff required to perform transactions on DRA terminals, there is no feasible way that a supervisor could be summoned to write a formal approval; this recommendation is doubly impractical per the response to Finding 7—the number and very small size of the average transaction. Per current revisions to the Branch Manual and oral instruction, reporting of Money Code Errors is being standardized.

Auditor's Response:

Supervisory approval is being requested only for voided transactions and supervisor authorization can be in the form of initials.

Finding # 11 Various source documents used to account for revenues could not be located.

Documentation that should have been retained to support and trace branch activities could not be located. The lack of an adequate paper trail makes it difficult to prove exactly who was involved and the amount of the loss.

The Daily Money Report, which was the log used by Branch staff to record actual cash removed from the cash drawers throughout the day, could not be located for 16 of the 25 periods examined. Branch copies of deposit slips, monthly reports submitted to Library Administration, and DRA Reports could not be located either. Also, Library Administration could not locate various deposit slips received from the Branch. For example, only one validated deposit slip for \$73 could be located for August 2000 deposits which totaled \$4,124.

Recommendation:

Implement record retention policies to improve record-keeping and to safeguard related documents. Review and comply with the County's record retention schedule for fiscal records.

Auditee's Response:

Library concurs.

It has been the Library's practice to retain deposit records per County policy and cognizant staff have been advised of the need to ensure future compliance.

Finding # 12 Reports did not provide accurate and consistent information.

Library personnel utilize a variety of reports to document receipts. Properly prepared, utilized, and reviewed, these reports would function as effective management tools. However, the reports did not provide accurate and consistent information.

The reports were poorly formatted and prepared, and lacked evidence of review by the Branch and Library Administration. For example, the Record of Receipts and Reference Questions (A) did not include the preparer's name or the date prepared, and there was no evidence of review and approval. A cursory review of this one-page report would have revealed that data was being manipulated, deposits consistently lagged behind reported receipts, and reported receipts were not reasonable when compared to prior periods.

Reports contained various calculation errors and required fields were often left blank. Information provided was often inaccurate. Receipts recorded for the same period were not consistent. The following extract is an example of observed inconsistencies:

	A	B	C	D	E
Month	Record of Receipts & Reference Questions (RRRQ)	Deposits (Recorded monthly on the RRRQ)	Daily Money [Manual] Report (Log at Branch— <i>entries made in pencil</i>)	DRA Monthly Money [System] Report (<i>Daily Details</i>)	DRA Monthly Money [System] Report (<i>Monthly Summary</i>)
07/99	5,189.24	5,281.05	5,324.24	5,441.52	5,461.52
01/00	8,528.71	8,569.04	<i>Missing</i>	9,684.87	9,739.87
07/00	3,087.24	3,259.99	<i>Missing</i>	5,855.18	5,943.38
01/01	5,780.92	5,161.81	<i>Missing</i>	7,785.96	7,820.96
07/01	3,316.89	2,127.14	<i>Missing</i>	6,325.58	6,411.03
01/02	3,230.79	2,520.55	8,752.26	8,586.08	8,704.07

Recommendation:

Improve the design and use of documents and records to help ensure the proper recording and reporting of transactions. Prepare written instructions outlining the preparation and review of all required reports. Provide training and cross-training of staff to allow for the correct and consistent preparation of reports generated at the Branch and by Library Administration. Ensure that automated reports do not require manual adjustments to enhance relevance or usefulness.

Auditee's Response:

Library concurs.

Per response to Finding 7, the Library is reviewing reformatting the Daily Money Report to include the daily DRA-reported cash amount to be entered alongside the daily cash accounted for, and bank deposit amounts, for easier reconciliation & review, with appropriate guidelines to be included in the Branch Manual, now under revision, that also require initials of staff member making entries and Branch Manager's daily review. Per response to Finding 2, the automated reports will always require manual adjustments.

Finding # 13 Distributions for the Friends of the Library Program were not calculated correctly.

Branch staff enter receipts by codes onto the DRA System. These codes allowed Library Administration employees to extract monthly totals for different categories and prepare the Summary of Money Collected Reports. These reports show the amount to be remitted to the Friends of the Library Program. However, the reports were incorrectly prepared, resulting in erroneous distributions. For example, the category

used to record general donations to the Branch was included in the distributions remitted to the "Friends" Program. In addition, employees responsible for preparing these reports were not knowledgeable about what was to be distributed. During the course of the audit, some procedures were drafted to prospectively address distribution to "Friends."

Further, we did not observe any reconciliation of distributions to actual deposits.

Recommendation:

Implement changes to the receipting system so that sub-totals by programs are automatically generated. Establish guidelines to ensure that distributions do not exceed available funds.

Auditee's Response:

The Library concurs.

Historically, most donations to the Library made in a branch were treated as donations to the Friends of the Library. More recently it was determined that donations not specifically made for the Friends should be considered as made to the branch separately, and the Library established a separate DRA code allowing for reporting of cash donations, and this amount is shown on the monthly money report. Due to a change of supervisors in the cognizant department, the money category Donations was included in the amount paid to the Friends of the Library groups from December, 2001 through April, 2002, when the error was detected and changes made in the distribution. There is no need for separate guidelines for preventing distributions from exceeding available funds; "excess" distributions only occurred at the Chino Hills branch because of the incorrect deposits being made, and observation of Library policies including those resulting from this report will eliminate any such distributions.

Finding # 14 Receipt books were not properly maintained.

New and used receipt books were not kept in a secure area and were accessible to all staff. The Branch did not maintain a control mechanism for tracking receipt books received, issued, or completed. Receipt books were not logged when received from Library Administration or when issued to staff. Several receipt books were being used concurrently and were not assigned to specific cashiers. Duplicate receipts stored at the branch were used as support for unapproved refunds. Lack of controls over receipt books can lead to misappropriation of funds.

Recommendation:

Establish and maintain a receipt control log to track receipt books received, issued, and completed. Ensure that the log shows the date received, beginning and ending numbers in sequence, and the name of the employee receiving the books at the Branch. Keep new and used books in a secure area and restrict access to designated staff. Issue receipt books one at a time and in sequential order. Conduct periodic reviews of receipts and refunds, tracing reported activity to the patron's account.

Auditee's Response:

The Library concurs.

The Library is developing procedures for handling receipt books per recommendations.

Follow up

Six months after the issue of this audit report the Internal Audits Section will follow up the implementation and effectiveness of agreed recommendations. A progress report will be provided to management and the Board of Supervisors.

Acknowledgements

We wish to thank the management and staff for their full cooperation during the audit.
Respectfully submitted, Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Risk Management Division (#0190-02-00874-01-55)
Susan Wenger, Regional Manager
Patty Diaz, Branch Manager
Grand Jury (2)
Audit File (3)

By: _____
C. J. Adams
Internal Auditor
Internal Audit Section

Date Report Distributed: _____

**COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CRESTLINE SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Prepared by:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
November 19, 2002**

**County of San Bernardino Special Districts
Crestline Sanitation District**

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Independent Auditor's Report

November 19, 2002

Emil A. Marzullo, Director

Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT FOR THE FISCAL
YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Crestline Sanitation District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Crestline Sanitation District as of June 30, 2002, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The Crestline Sanitation District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed:

LDW:BKR:YD:spr.2

**County of San Bernardino
Crestline Sanitation District
Statement of Net Assets
Proprietary Funds
June 30, 2002**

	Enterprise Fund Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,628,681
Accounts receivable	250,988
Taxes receivable	48,667
Interest receivable	54,477
Other receivables	19,674
Due from other governments	250,394
Total current assets	<u>6,252,881</u>
Noncurrent assets:	
Capital assets:	
Land	213,308
Construction in progress	987,654
Structures, utility plant, and improvements	21,205,798
Equipment and vehicles	1,145,945
Less accumulated depreciation	<u>(13,376,334)</u>
Total noncurrent assets	<u>10,176,371</u>
Total assets	<u><u>\$ 16,429,252</u></u>
LIABILITIES	
Current liabilities:	
Vouchers and accounts payable	\$ 85,359
Salaries and benefits payable	53,957
Current portion of loans payable	107,975
Total current liabilities	<u>247,291</u>
Noncurrent liabilities:	
Noncurrent portion of loans payable	1,348,688
Employee compensated absences	132,859
Total noncurrent liabilities	<u>1,481,547</u>
Total liabilities	<u>1,728,838</u>
NET ASSETS	
Invested in capital assets, net of related debt	13,299,762
Unrestricted	1,400,652
Total net assets	<u>14,700,414</u>
Total liabilities and net assets	<u><u>\$ 16,429,252</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Crestline Sanitation District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2002**

	Enterprise Fund Sewer
OPERATING REVENUES	
Charges for services	\$ 1,480,129
Other services	136,007
Total operating revenues	<u>1,616,136</u>
OPERATING EXPENSES	
Salaries and benefits	1,130,304
Professional services	160,089
Services and supplies	506,686
Utilities	69,992
Rents and leases	1,060
Other operating expenses	10,176
Depreciation	493,715
Total operating expenses	<u>2,372,022</u>
Operating Income (Loss)	<u>(755,886)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	244,654
Property taxes	710,573
Special Assessments	132,589
Other taxes	29,855
Gain on sale of fixed assets	2,509
Other nonoperating revenues	37,854
Interest expense	(31,900)
Total nonoperating revenues (expenses)	<u>1,126,134</u>
Change in net assets	370,248
Net assets - beginning (restated)	<u>14,330,166</u>
Net assets - ending	<u><u>\$ 14,700,414</u></u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002**

	Enterprise Fund
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 1,450,798
Payments to employees for services and benefits	(1,113,331)
Payments to suppliers for goods and services	<u>(748,002)</u>
Net cash provided (used) by operating activities	<u>(410,535)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	857,096
Grants received	16,090
Other receipts	<u>25,799</u>
Net cash provided (used) by noncapital financing activities	<u>898,985</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(660,614)
Proceeds from the sale of capital assets	2,509
Principal paid on capital debt	(76,076)
Interest paid on capital debt	<u>(31,900)</u>
Net cash provided (used) by capital and related financing activities	<u>(766,081)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair value of investments	12,055
Interest	<u>269,521</u>
Net cash provided (used) by investing activities	<u>281,576</u>
Net increase in cash and cash equivalents	3,944
Cash and cash equivalents - beginning	<u>5,624,736</u>
Cash and cash equivalents - ending	<u><u>\$ 5,628,681</u></u>

(Continued)

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002**

Enterprise Fund
Sewer

**RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating income (loss)	\$ (755,886)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	493,715
Decrease in accounts receivables	19,240
Increase in other receivables	(19,674)
Increase in due from other governments	(163,744)
Increase in accounts payable	85,359
(Increase) in accounts payable related to equipment purchase	(78,241)
Increase in salaries and benefits payable	14,609
Decrease in compensated absences	(5,913)
	<u> </u>
Net cash provided by operating activities	<u>\$ (410,535)</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL, AND
FINANCING ACTIVITIES:**

Purchase of equipment and vehicles on account	<u>\$ 78,241</u>
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**County of San Bernardino Special Districts
Crestline Sanitation District
Statement of Fiduciary Net Assets
June 30, 2002**

	<u>Agency Fund 1915 Bond Act</u>
ASSETS	
Cash and cash equivalents	<u>\$ 219,955</u>
Total assets	<u><u>\$ 219,955</u></u>
LIABILITIES	
Due to bondholders	<u>\$ 219,955</u>
Total liabilities	<u><u>\$ 219,955</u></u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Crestline Sanitation District (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946 to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District currently serves 5,234 residential and commercial connections.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Crestline Sanitation District and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as *nonoperating* revenues and expenses

All activities of the District are accounted for within a single proprietary (enterprise) fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the enterprise fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

<u>Assets</u>	<u>Years</u>
Structures and Improvements	20 – 45
Utility Plant in Service	45
Equipment and Vehicles	5 – 15

During 2002, management determined that the useful lives of structures, utility plant in service, improvements, equipment and vehicles were longer than originally expected. A change in accounting estimate was recognized to reflect this decision, resulting in an increase in net income of \$123,521.

Net assets

Net assets comprise the various net earning from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consist of net assets of the District that are not restricted for any project or other purpose.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Compensated absences activity for the year ended June 30, 2002 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$138,772	\$121,011	(\$ 126,924)	\$132,859

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 3: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2001 (as restated)	Additions	Deletions	Balance June 30, 2002
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	\$ -	\$ 213,308
Construction in Progress	<u>370,632</u>	<u>650,795</u>	<u>(33,773)</u>	<u>987,654</u>
Total capital assets, not being depreciated	<u>583,940</u>	<u>650,795</u>	<u>(33,773)</u>	<u>1,200,962</u>
Capital assets, being depreciated:				
Land Improvements	721,876	-	-	721,876
Structures	5,083,460	-	-	5,083,460
Utility Plant in Service	15,366,689	33,773	-	15,400,462
Equipment and Vehicles	<u>1,077,975</u>	<u>88,062</u>	<u>(20,092)</u>	<u>1,145,945</u>
Total capital assets, being depreciated	<u>22,250,000</u>	<u>121,835</u>	<u>(20,092)</u>	<u>22,351,743</u>
Less accumulated depreciation for:				
Land Improvements	83,876	34,916	-	118,792
Structures	2,166,165	98,707	-	2,264,872
Utility Plant in Service	9,744,901	320,615	-	10,065,516
Equipment and Vehicles	<u>907,769</u>	<u>39,477</u>	<u>20,092</u>	<u>927,154</u>
Total accumulated depreciation	<u>12,902,711</u>	<u>493,715</u>	<u>20,092</u>	<u>13,376,334</u>
Total capital assets, being depreciated, net	<u>9,347,289</u>	<u>(371,880)</u>	<u>-</u>	<u>8,975,409</u>
Business-type activities capital assets, net	<u><u>\$ 9,931,229</u></u>	<u><u>\$ 278,915</u></u>	<u><u>\$ (33,773)</u></u>	<u><u>\$ 10,176,371</u></u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 3: CAPITAL ASSETS - *Continued*

At July 1, 2001, the County made the following restatements to capital assets:

Beginning unadjusted balance net of accumulated depreciation	\$ 9,935,896
Restated land improvement beginning balance, net of accumulated depreciation of \$75,102	646,774
Restated structures beginning balance, net of accumulated depreciation of \$ 2,166,165	2,917,295
Reclassified utility plant in service costs net of accumulated depreciation to land improvements and structures assets categories	(3,564,069)
Restated beginning balance of vehicles accumulated depreciation	(2)
Restated beginning balance of land improvement accumulated depreciation	(8,774)
Removed accumulated depreciation of utility plant in service assets that are below the capitalization threshold of \$5,000	4,109
Adjusted beginning balance of capital assets at July 1, 2001	<u><u>\$ 9,931,229</u></u>

Construction in Progress

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Facility Expansion	\$ 865,000	\$ 231,374	2002
Huston Creek Facility Expansion	50,000	4,545	2004
Outfall System Study for handling effluent runoff	50,000	4,546	2004
Drill Well Monitor	102,437	5,098	2004
Reline Waterline	1,050,000	255,505	2003
New Telemetry Systems	148,394	4,073	2003
Odor Control System	1,095,807	482,513	2003
		<u><u>\$ 987,654</u></u>	

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 4: LOAN PAYABLE

On January 16, 1997, the District received a revolving fund loan from The State Water Resources Control Board in the amount of \$2,159,508 with an implied interest rate of 2.081%. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,905 was funded by local matching funds. The loan and implied interest will be repaid by March 1, 2018. At June 30, 2002, the outstanding principal balance is \$1,456,663. A summary of loan payments for the remaining fiscal years is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 77,659	\$ 30,316	\$ 107,975
2004	79,275	28,700	107,975
2005	80,925	27,050	107,975
2006	82,609	25,366	107,975
2007	84,328	23,647	107,975
2008-2018	<u>1,051,867</u>	<u>135,856</u>	<u>1,187,723</u>
Total	<u>\$ 1,456,663</u>	<u>\$ 270,935</u>	<u>\$ 1,727,598</u>

NOTE 5: LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2002:

	<u>Principal Balance July 1, 2001</u>	<u>Additions</u>	<u>Retirement s</u>	<u>Principal Balance June 30, 2002</u>	<u>Amounts Due Within One Year</u>
Loan Payable (Note 4)	\$1,532,739	\$ -	\$ (76,076)	\$1,456,663	\$107,975
Compensated Absences	<u>138,772</u>	<u>121,011</u>	<u>(126,924)</u>	<u>132,859</u>	<u>-</u>
Total long-term liabilities	<u>\$1,671,511</u>	<u>\$ 121,011</u>	<u>\$ (203,000)</u>	<u>\$1,589,522</u>	<u>\$107,975</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the District paid \$129,316 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 8: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The only insurance costs that the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$ 109,349 for the year ended June 30, 2002.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund of the County of San Bernardino. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$42,590,000 at June 30, 2002.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 8: SELF INSURANCE - *Continued*

The total County claims liability of \$95,288,000 reported at June 30, 2002 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2001 and 2002 were (in thousands):

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-end</u>
2000-01	\$ 52,853	\$ 13,384	\$ (5,065)	\$ 61,172
2001-02	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 9: SPECIAL ASSESSMENT ACCOUNTING – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 (the “bonds”) to finance certain sewer improvements. The District reports 1915 Act Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. The bonds are not a direct liability of the District and therefore are not reported on the District’s financial statements. The portion of the Utility Plant in Service financed by Special Assessments amounting to \$3,307,763, is reported as Invested in Capital Assets, Net of Related Debt in the Enterprise Fund. The liability for each Assessment District at June 30, 2002 is zero.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 10: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2002, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
EGY	To EGS and EGV for operations and capital outlay	\$ (1,971,034)
EGS	From EGY for operations and capital outlay	1,371,034
EGV	From EGY for capital outlay	600,000
EGV	To EGY for capital outlay	(1,005,600)
EGY	From EGV for capital outlay	1,005,600
EGS	To EGY, EGI, CIF, CIG, ELQ, ELP for operations and capital outlay	(1,600,681)
ELP	From EGS for operations	100,000
EGY	From EGS for capital outlay	656,349
EGI	From EGS for capital outlay	300,000
CIF	From EGS for capital outlay	39,500
CIG	From EGS for capital outlay	469,832
ELQ	From EGS for capital outlay	<u>35,000</u>
Net Interfund Transfers		<u><u>\$ -</u></u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 11: CONTINGENCIES

As of June 30, 2002, in the opinion of the District's Administration, there are no outstanding matters, which would have a significant effect on the financial position of the District.

NOTE 12: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

Invested in Capital Assets, Net of Related Debt:	<u>June 30, 2002</u>
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment and Vehicles	\$ 10,176,371
Add: Prior year contributed capital	4,580,054
Less: Revolving loans payable	<u>(1,456,663)</u>
	13,299,762
Restricted	-
Unrestricted	<u>1,400,652</u>
Total Net Assets	<u>\$ 14,700,414</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
June 30, 2002**

NOTE 13: PRIOR PERIOD ADJUSTMENT TO NET ASSETS

On July 1, 2001, net assets were overstated by \$ 4,667. The beginning net asset balance was restated with a prior period adjustment recorded to correct depreciation of assets at June 30, 2001.

The restatement of net assets is as follows:

Net asset previously reported at June 30, 2001	\$ 14,334,833
Prior period adjustment to correct depreciation	<u>(4,667)</u>
Restated net asset balance at June 30, 2001	<u><u>\$ 14,330,166</u></u>

November 19, 2002

Emil A. Marzullo, Director

Office of Special Districts

157 W. Fifth Street, Second Floor

San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – CRESTLINE SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the Crestline Sanitation District for the fiscal year ended June 30, 2002 and have issued our report thereon dated November 19, 2002. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMMENDATIONS

Finding One: Internal controls in the cash collection and receipting functions need improvement.

During our testwork we noted the following:

- a. On September 11, 2002 there was excess cash in the change fund of approximately \$99.56 for July and August sewer fees. Based on the documentations provided by the District, the cash receipts were received on September 10, 2002 and were commingled with the change fund.
- b. The bank deposit distribution report dated August 1, 2001 did not match the supporting documents:
 - The receipt number sequences reported in the "Notification of Receipts on File" were not consistent with the amount reported. We found that receipt no. 642315 for \$54.38 issued on July 27, 2001 was not included in the \$80,741.83 total. This receipt was instead deposited on July 31, 2001 and included in the September 5, 2001 bank deposit report.
 - Receipt no. 1642297 for \$2,846.49 was prepared incorrectly. The supporting documentation totaled \$2,876.49, a difference of \$30.

Recommendations

Ensure that all cash collections are promptly receipted. Issue an official county receipt for the exact amount received for all over-the-counter transactions. Update the District's Customer Payments Procedures to include provisions requiring the issuance of cash receipts for all transactions. At the end of each business day, require the cashier to separate cash receipts from the change fund and turn over cash collections to a designated employee or supervisor to verify intactness of receipts. Have the supervisor in charge total all cash receipts issued for the day, compare and reconcile them with the tape total of all monies turned in by the cashier. In addition, reconcile the monies collected from the mail and over-the-counter transactions with the daily posting report.

Review the "Notification of Receipts on File" and the "Bank Deposit Acknowledgement and Deposit Distribution" reports for accuracy prior to submission to the Auditor/Controller-Recorder.

Management's Response

Cash payments received late on September 10th were posted and receipted on September 12th along with the payments received on the 12th. No payments were received on September 11th to post. Cash payments are kept in the locking change drawer.

The cash receipting procedure will be changed to reflect the changes recommended by the Auditor.

Receipt #642315 for \$54.38 issued on July 27th that was deposited on July 31st was missed on the August bank deposit report and was included in the September bank deposit report.

The Notification of Receipts on File and the Bank Deposit Acknowledgement and Deposit Distribution reports will continue to be checked for accuracy.

Finding Two: The Account Representative II and the Account Clerk II have custodial access to cash, and the ability to authorize transactions and update underlying records.

There is not adequate segregation of duties over the cash receipting process. The control objective underlying segregation of duties is that no one employee be in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. When any one individual is responsible for collecting cash, depositing receipts, recording collections, approving reconciliations, and making account adjustments, unauthorized transactions or errors can occur and remain undetected.

Recommendations

- Separate the billing, receipting and deposit functions. Assign an employee other than the individual receiving and opening mail, issuing receipts and making deposits.
- Assign duties such that no one individual has access to the entire cash receipting and billing process.
- Have the supervisor verify accuracy of deposits and authorize write-offs of penalties or other account adjustments.

Management's Response

Crestline Sanitation District Office has a staff of 3. Posting and reconciling duties overlap to accommodate vacations and leave time.

The duties of each position have been modified as much as possible to comply with this recommendation. The supervisor will verify accuracy of deposits and authorize write-offs of penalties or other account adjustments.

Finding Three: The District's accounts receivable system does not provide accurate information concerning the fees billed for each billing cycle.

The individual billing cycle report showed total sewer fees billed in fiscal year 2002 were \$1,824,980 while the system generated report "Bimonthly Accounts Receivable Summary," only showed \$1,542,180, a difference of \$282,800.

Based on further discussion with District staff, we found that the District had problems with the system-generated report since the software was implemented.

We noted that it was difficult to analyze the level of outstanding accounts for any given month during the fiscal year. District staff did not maintain a copy of the monthly outstanding accounts receivable report. Because of the billing system's inherent weakness, staff could not regenerate the outstanding receivable reports. Due to the lack of outstanding receivable reports, the District was unable to verify whether all delinquent accounts have been collected.

Recommendations

Immediately notify and require the software vendor to correct the system problem. Develop and implement additional procedures to systematically track, reconcile, and collect delinquent sewer fees.

Management's Response

The Water & Sanitation Division is currently in the process of acquiring a new billing system that will generate adequate accounts receivable reports.

Reports available are being printed to track accounts receivable at this time.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
Crestline Sanitation District
Special Districts
Audit file

By: _____
Yolanda T. Daugherty
Internal Auditor II
Internal Audits Division

Date Report Distributed: _____

LDW:BKR:YTD:dlp2

AUDIT REPORT
LOCAL AGENCY FORMATION COMMISSION
FOR SAN BERNARDINO COUNTY
CALIFORNIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
October 25, 2002

Local Agency Formation Commission for San Bernardino County

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Independent Auditor's Report

October 25, 2002

Gerald W. Smith, Chairman

Local Agency Formation Commission
175 West Fifth Street, Second Floor
San Bernardino, CA 92415-0490

**SUBJECT: AUDIT OF LOCAL AGENCY FORMATION COMMISSION FOR SAN
 BERNARDINO COUNTY FOR THE FISCAL YEAR ENDED JUNE 30,
 2002**

Introductory Remarks

Per your request, we have completed an audit of Local Agency Formation Commission for San Bernardino County for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (the "Commission"), an independent state mandated agency for the County of San Bernardino, California, as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Local Agency Formation Commission for San Bernardino County, as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Local Agency Formation Commission for San Bernardino County has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)
Local Agency Formation Commission
Members(7)

By:

Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)
Date Report Distributed:

LDW:BKR:LGS:dlp3

**Local Agency Formation Commission
for San Bernardino County
Statement of Net Assets
June 30, 2002**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 106,031
Petty cash - imprest funds	150
Interest receivable	2,508
Other	140
	<hr/>
Total current assets	108,829
	<hr/>
Noncurrent assets:	
Capital assets:	
Equipment	20,800
Less accumulated depreciation	(5,844)
	<hr/>
Total noncurrent assets	14,956
	<hr/>
Total assets	<u><u>\$ 123,785</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 17,745
Employee compensated absences	27,252
Accounts payable	6,008
	<hr/>
Total current liabilities	51,005
	<hr/>
Noncurrent liabilities:	<hr/>
	-
	<hr/>
Total liabilities	51,005
	<hr/>
NET ASSETS	
Invested in capital assets	14,956
Unrestricted	57,824
	<hr/>
Total net assets	72,780
	<hr/>
Total liabilities and net assets	<u><u>\$ 123,785</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
for San Bernardino County
Statement of Activities
For The Year Ended June 30, 2002**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 367,925
Services and supplies	214,129
Depreciation	2,100
Interest	80
	<hr/>
Total expenses	584,234
	<hr/>
PROGRAM REVENUES	
Charges for services	52,398
Other governmental aid	474,561
	<hr/>
Total program revenues	526,959
	<hr/>
Net program (expense) revenue	(57,275)
	<hr/>
GENERAL REVENUES	
Interest	18,984
	<hr/>
Total general revenues	18,984
	<hr/>
Change in net assets	(38,291)
	<hr/>
Net assets - beginning	111,071
	<hr/>
Net assets - ending	\$ 72,780
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
for San Bernardino County
Balance Sheet
Governmental Funds
June 30, 2002**

ASSETS	General Fund
Cash and cash equivalents	\$ 106,031
Petty cash - imprest funds	150
Interest receivable	2,508
Other	140
	<hr/>
Total assets	\$ 108,829
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 17,745
Employee compensated absences payable	27,252
Accounts payable	6,008
	<hr/>
Total liabilities	51,005
	<hr/>
Fund balances:	
Unreserved	57,824
	<hr/>
Total fund balances	57,824
	<hr/>
Total liabilities and fund balances	\$ 108,829
	<hr/>
Reconciliation of the balance sheet of governmental funds to the statement of net assets	
Total fund balances - governmental funds	\$ 57,824
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,956
	<hr/>
Net assets of governmental activities	\$ 72,780
	<hr/>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
for San Bernardino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2002**

	General Fund
REVENUES	
Charges for services	\$ 52,398
Interest	18,984
Other governmental aid	474,561
	<hr/>
Total revenues	545,943
	<hr/>
EXPENDITURES	
Salaries and benefits	367,925
Services and supplies	214,129
	<hr/>
Total expenditures	582,054
	<hr/>
Excess of revenues over (under) expenditures	(36,111)
	<hr/>
OTHER FINANCING SOURCES (USES)	
Interest	(80)
Capital outlay	(9,153)
	<hr/>
Total other financing sources (uses)	(9,233)
	<hr/>
Net change in fund balances	(45,344)
	<hr/>
Fund balances - beginning	103,168
	<hr/>
Fund balances - ending	<u><u>\$ 57,824</u></u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the
Statement of Activities**

Net change in fund balances - total governmental funds	\$ (45,344)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	<hr/> 7,053
Change in net assets of governmental activities	<u><u>\$ (38,291)</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Local Agency Formation Commission for San Bernardino County (the "Commission") is a State mandated agency that was created in 1963. The Commission is responsible for working closely with citizens, the County of San Bernardino, cities, and special districts on a variety of issues concerning jurisdictional changes.

The Commission consists of seven voting members as follows:

- Two members of city councils,
- Two members of the Board of Supervisors of the County of San Bernardino,
- Two members of independent special districts, and
- A member representing the general public.

As of January 2001, the Commission's powers, responsibilities, and authority are all defined and described in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH).

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of any interfund activity is eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the Commission does not have any proprietary or fiduciary fund types and operates under a single-program governmental fund.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Accounts receivable

All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	7

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Compensated absences activity for the year ended June 30, 2002 was as follows:

<u>Beginning Balance</u>		<u>Additions</u>		<u>Deletions</u>		<u>Ending Balance</u>
\$ 27,345		\$ 49,109		\$ 49,202		\$ 27,252

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$7,053 difference are as follows:

Capital outlays	\$ 9,153
Depreciation expense	<u>(2,100)</u>
	<u><u>\$ 7,053</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), the Commission shall adopt a proposed budget by May 1 and a final budget by June 15 of each fiscal year.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Budgets are prepared on the modified accrual basis of accounting. After adoption of a final budget, the County of San Bernardino auditor shall apportion one-third of net operating expenses of the Commission to each of the following: the county, cities, and independent special districts. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Commission. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the Commission's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Commission's account based upon the average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2002.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of an interest receivable in the amount of \$2,508.

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the Commission as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2002 follows:

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 11,647	\$ 9,153	\$ -	\$ 20,800
Total capital assets being depreciated	11,647	9,153	-	20,800
Less accumulated depreciation for:				
Equipment	3,744	2,100	-	5,844
Total accumulated depreciation	3,744	2,100	-	5,844
Total capital assets being depreciated, net	7,903	7,053	-	14,956
Total net capital assets	\$ 7,903	\$ 7,053	\$ -	\$ 14,956

NOTE 5: CONTINGENCIES

As of June 30, 2002, in the opinion of the Commission's administration, there are no outstanding matters that would have a significant effect on the financial position of the Commission.

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino, the

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 6: RETIREMENT PLAN - *Continued*

organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission

The Commission and others covered under the plan are collectively referred to as the "participating members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 7.11% - 10.58% of their annual covered salary of which the Commission pays approximately 7%. Employers are required to contribute 6.67% - 14.46% of the current year covered payroll. During the year, the Commission paid \$57,106 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 7: NET ASSETS

Net assets represent the difference between assets and liabilities. The net assets were \$72,780 at June 30, 2002.

**Local Agency Formation Commission
For San Bernardino County
Required Supplementary Information
Budgetary Comparison Schedule
For the Year Ended June 30, 2002**

General Fund	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (negative)
Budgetary fund balance July 1, 2001	\$ 103,168	\$ 103,168	\$ 103,168	\$ -
Resources (inflows):				
Other governmental aid	474,567	474,567	474,561	(6)
Interest	15,000	15,000	18,984	3,984
Charges for services	104,750	104,750	52,398	(52,352)
Amounts available for appropriation	697,485	697,485	649,111	(48,374)
Charges to appropriations (outflows):				
Salaries and benefits	380,644	385,262	367,925	17,337
Services and supplies	244,659	253,939	214,129	39,810
Capital outlays	4,200	4,200	9,153	(4,953)
Interest	950	950	80	870
Appropriation for equipment	40,000	40,000	-	40,000
Appropriation for contingencies	30,895	14,365	-	14,365
Total charges to appropriations	701,348	698,716	591,287	107,429
Budgetary fund balance, June 30, 2002	\$ (3,863)	\$ (1,231)	\$ 57,824	\$ 59,055

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
TWENTYNINE PALMS PUBLIC
CEMETERY DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
September 26, 2002

**County of San Bernardino Special Districts
Twentynine Palms Public Cemetery District**

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Independent Auditor's Report

September 26, 2002

Sandra J. Gray, Chairwoman

Board of Trustees

Twentynine Palms Public Cemetery District

5350 Encelia Avenue

Twentynine Palms, CA 92277

**SUBJECT: AUDIT OF TWENTYNINE PALMS PUBLIC CEMETERY DISTRICT FOR
THE FISCAL YEAR ENDED JUNE 30, 2002**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Twentynine Palms Public Cemetery District for the fiscal year ended June 30, 2002.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities and the remaining aggregate fund information of the County of San Bernardino Special Districts Twentynine Palms Public Cemetery District (the "District"), an independent special district of the County of San Bernardino, California, as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the remaining aggregate fund information of the County of San Bernardino Special Districts Twentynine Palms Public Cemetery District, as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 for the year ended June 30, 2002. This results in a change in the format and content of the basic financial statements.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Special Districts Twentynine Palms Public Cemetery District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Copies to:

Larry Walker
Auditor/Controller-Recorder

County Administrative Office
Board of Supervisors
Grand Jury (2)

By:

Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

Audit File (3)

Date Report Distributed: _____

LDW:BKR:dlp5

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Net Assets
For the Fiscal Year Ended June 30, 2002**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 428,462
Cash in banks	6,241
Petty cash - imprest funds	2,300
Interest receivable	<u>2,150</u>
Total current assets	<u>439,153</u>
Noncurrent assets:	
Capital assets:	
Land	23,797
Structures and improvements	317,759
Vehicles	67,838
Equipment	9,565
Less accumulated depreciation	<u>(259,386)</u>
Total noncurrent assets	<u>159,573</u>
Total assets	<u><u>\$ 598,726</u></u>
LIABILITIES	<u><u>\$ -</u></u>
NET ASSETS	
Invested in capital assets	159,573
Restricted for:	
Principal - nonexpendable	125,511
Interest - expendable	130,431
Unrestricted	<u>183,211</u>
Total net assets	<u>598,726</u>
Total liabilities and net assets	<u><u>\$ 598,726</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Activities
For the Fiscal Year Ended June 30, 2002**

	Governmental Activities
EXPENSES	
Salaries and benefits	\$ 91,200
Services and supplies	35,371
Depreciation	12,750
Capital outlay	2,258
	<hr/>
Total expenses	141,579
	<hr/>
PROGRAM REVENUES	
Charges for services	25,879
Total program revenues	25,879
	<hr/>
Net program (expense) revenue	(115,700)
	<hr/>
GENERAL REVENUES	
Property taxes	94,251
Other taxes	1,749
State aid	1,975
Operating transfers in	9,233
Interest	27,159
Other	13,847
	<hr/>
Total general revenues	148,214
	<hr/>
Change in net assets	32,514
Net assets - beginning	566,212
	<hr/>
Net assets - ending	\$ 598,726
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Balance Sheet
Government Funds
For the Fiscal Year Ended June 30, 2002**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 173,695	\$ 254,767	\$ 428,462
Cash in banks	5,497	744	6,241
Petty cash - imprest funds	2,300		2,300
Interest receivable	1,719	431	2,150
Total assets	<u>\$ 183,211</u>	<u>\$ 255,942</u>	<u>\$ 439,153</u>
LIABILITIES AND FUND BALANCES			
Liabilities:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:			
Unreserved	183,211		183,211
Reserved for:			
Principal - nonexpendable		125,511	125,511
Interest - expendable		130,431	130,431
Total fund balances	<u>183,211</u>	<u>255,942</u>	<u>439,153</u>
Total liabilities and fund balances	<u>\$ 183,211</u>	<u>\$ 255,942</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			<u>159,573</u>
Net assets of governmental activities			<u>\$ 598,726</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
Government Funds
For the Fiscal Year June 30, 2002**

	General (MAV)	Permanent Fund Endowment Care (MBA)	Total Governmental Funds
REVENUES			
Charges for services	\$ 25,879	\$ -	\$ 25,879
Interest	6,791	20,368	27,159
Property taxes	94,251		94,251
Other taxes	1,749		1,749
State aid	1,975		1,975
Other	9,384	4,463	13,847
	<hr/>	<hr/>	<hr/>
Total revenues	140,029	24,831	164,860
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Salaries and benefits	91,200		91,200
Services and supplies	35,371		35,371
	<hr/>	<hr/>	<hr/>
Total expenditures	126,571	-	126,571
	<hr/>	<hr/>	<hr/>
Excess of revenues over (under) expenditures	13,458	24,831	38,289
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,233		9,233
Capital outlay	(2,258)		(2,258)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	6,975	-	6,975
	<hr/>	<hr/>	<hr/>
Net change in fund balances	20,433	24,831	45,264
	<hr/>	<hr/>	<hr/>
Fund balances - beginning	162,778	231,111	393,889
	<hr/>	<hr/>	<hr/>
Fund balances - ending	<u>\$ 183,211</u>	<u>\$ 255,942</u>	<u>\$ 439,153</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Government Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2002**

Net change in fund balances - total governmental funds	\$ 45,264
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

(12,750)

Change in net assets of governmental activities	<u><u>\$ 32,514</u></u>
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 For the Fiscal Year Ended June 30, 2002**

	Private-Purpose Trust Fund Pre-Need Burial (MAY)
ASSETS	
Cash and cash equivalents	\$ 197,183
Cash in banks	3,872
Petty cash - imprest funds	200
Accounts receivable	8,052
Interest receivable	1,897
	<hr/>
Total assets	\$ 211,204
	<hr/>
LIABILITIES	\$ -
	<hr/>
NET ASSETS	
Held in trust	211,204
	<hr/>
Total net assets	211,204
	<hr/>
Total liabilities and net assets	\$ 211,204
	<hr/>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Statement of Fiduciary Net Assets
Fudiciary Funds
For the Year Fiscal Ended June 30, 2002**

	Private-Purpose Trust Fund Pre-Need Burial (MAY)
ADDITIONS	
Contributions	\$ 18,192
Investment earnings - interest	8,211
Total additions	<u>26,403</u>
 DEDUCTIONS	
Operating transfers out	<u>9,233</u>
Total deductions	<u>9,233</u>
Change in net assets	17,170
Net assets - beginning	<u>194,034</u>
Net assets - ending	<u><u>\$ 211,204</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Twentynine Palms Public Cemetery District (the District) created in 1934 is an independent special district located within the County of San Bernardino. The District was established to provide cemetery service to the community of Twentynine Palms, California.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity among governmental activities has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from any *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* labeled “General” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *permanent fund* labeled “Endowment Care” provides resources that are legally restricted to the extent that only earnings and no principal (corpus) may be used for purposes that support the reporting government’s programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fiduciary funds are used to account for assets held by the District as an agent or trustee for individuals, private organizations, other governments and/or other funds. The Pre-Need Burial fund is a private-purpose trust fund which transfers funds from its earnings to the General fund to finance burial expenditures. The modified accrual basis of accounting is used for the fiduciary fund.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the District does not have any business-type activities. All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	15 – 45
Equipment and vehicles	6 – 20

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(12,750) difference are as follows:

Capital outlays	\$ -
Depreciation expense	<u>12,750</u>
Net difference	<u><u>\$ (12,750)</u></u>

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability

A. Budgetary information

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds must be approved by the Board. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Changes in accounting principle

During the 2001-02 fiscal year, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001. The above changes have resulted in a change to the format and content of the District's basic financial statements.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

A portion of the Endowment Care Fund is invested in U.S. Treasury Securities with a

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Notes to the Financial Statements
 For the Fiscal Year Ended June 30, 2002**

NOTE 2: CASH AND CASH EQUIVALENTS - *Continued*

private broker. In accordance with GASB Statement No. 3, the District's investment is categorized to give an indication of the level of credit risk assumed by the District. The District's investments are categorized in the following manner:

	<u>Category 1</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 210,042	\$ 210,042

Category 1 - Insured or registered, or security held by the District or its agent in the Districts' name.

The District reports cash equivalents according to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The District's investments are reported at fair value, based upon reported closing sales prices. The District intends to hold investments until maturity. The value of the investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the investments will not vary significantly from the values described herein.

NOTE 3: RECEIVABLES

At June 30, 2002, receivables were composed of the following:

	<u>Governmental</u>	<u>Fiduciary</u>
Accounts	\$ -	\$ 8,052
Interest	<u>2,150</u>	<u>1,897</u>
Net total receivables	<u>\$ 2,150</u>	<u>\$ 9,949</u>

NOTE 4: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2002 follows:

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 4: CAPITAL ASSETS - Continued

	Balance at July 1, 2001	Additions	Disposals	Balance at June 30, 2002
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 23,797	\$ -	\$ -	\$ 23,797
Total capital assets not being depreciated	23,797	-	-	23,797
Capital assets being depreciated:				
Improvements to land	-	-	-	0
Structures and improvements	317,759	-	-	317,759
Vehicles	67,838	-	-	67,838
Equipment	9,565	-	-	9,565
Total capital assets being depreciated	395,162	0	-	395,162
Less accumulated depreciation for:				
Improvements to land	-	-	-	0
Structures and improvements	216,009	6,729	-	222,738
Vehicles	22,227	5,584	-	27,811
Equipment	8,400	437	-	8,837
Total accumulated depreciation	246,636	12,750	-	259,386
Total capital assets being depreciated, net	148,526	(12,750)	-	135,776
Total net capital assets	\$ 172,323	\$ (12,750)	\$ -	\$ 159,573

NOTE 5: TRANSFERS IN/OUT

Interfund transfers in/out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and any capital project funds. At June 30, 2002, the District made the following interfund transfers in and out:

Fund	Purpose	Amount
MAV	To MAY - for operations	\$ 9,233
MAY	From MAV - for operations	<u>(9,233)</u>
		<u>\$ -</u>

NOTE 6: CONTINGENCIES

As of June 30, 2002, in the opinion of the District's administration, there are no outstanding matters which would have a significant effect on the financial position of the district.

**County of San Bernardino
Twentynine Palms Public Cemetery District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2002**

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2001-2002 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
 Twentynine Palms Public Cemetery District
 Required Supplementary Information
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2002**

General	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Budgetary fund balance, July 1, 2001	\$ 162,778	\$ 162,778	\$ 162,778	\$ -
Resources (inflows):				
Property taxes	97,000	97,000	94,251	(2,749)
State aid	-	-	1,975	1,975
Interest	3,000	3,000	6,791	3,791
Operating transfers in	2,000	2,000	9,233	7,233
Charges for services	17,500	17,500	25,879	8,379
Other taxes	-	-	1,749	1,749
Other revenue	4,967	4,967	9,384	4,417
Amounts available for appropriation	287,245	287,245	312,040	24,795
Charges to appropriations (outflows):				
Salaries and benefits	94,261	97,516	91,200	6,316
Services and supplies	68,150	69,115	35,371	33,744
Capital outlay	99,393	99,393	2,258	97,135
General reserve	5,000	5,000	-	5,000
Appropriation and contingencies	10,000	5,780	-	5,780
Total charges to appropriations	276,804	276,804	128,829	147,975
Budgetary fund balance, June 30, 2002	\$ 10,441	\$ 10,441	\$ 183,211	\$ 172,770